FINANCIAL ACCOUNTING STANDARDS BOARD®

Post-Implementation Review

Revenue from Contracts with Customers (Topic 606)

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We are pleased to share with the Financial Accounting Foundation (FAF) Board of Trustees and our stakeholders the FASB Post-Implementation Review Report: Topic 606—Revenue from Contracts with Customers. The Post-Implementation Review (PIR) process is an important quality control mechanism that allows the FASB to support high-quality application of the revenue standard and evaluate whether it is achieving its objective by providing investors and other financial statement users with relevant information in ways that justify the cost of providing it. This summary report and the accompanying detailed report in Appendix A summarize how the FASB staff conducted the Revenue PIR process, which included outreach with more than 2,200 stakeholders from diverse backgrounds, key implementation support provided throughout the adoption of the revenue standard, and using what was learned during the PIR process to improve the revenue standard and, more broadly, the standard-setting process. The revenue standard that is subject to the PIR process was issued under a joint project with the International Accounting Standards Board (IASB), which was added to the FASB's agenda in 2002.

The Revenue PIR process began with the issuance of the revenue standard in 2014 and consisted of three stages:

- Post-issuance date implementation monitoring (began in 2014 upon issuance of the standard)
- Post-effective date evaluation of costs and benefits (began after the 2018 effective date for public entities and 2020 effective date for other entities)
- Summary of research and reporting.

The FASB staff and Board engaged in many activities to support its review of the revenue standard. This included addressing implementation issues through a Transition Resource Group (TRG), providing educational webcasts and materials, answering questions submitted through our Technical Inquiry Service, issuing Accounting Standards Updates to clarify or make targeted improvements to the standard, and holding public Board meetings to discuss stakeholder feedback and PIR updates.

During the Revenue PIR process, we obtained an even greater appreciation for our stakeholders' commitment to the high-quality implementation of a standard. We were also pleased to learn that most stakeholders agree that, overall, the revenue standard's long-term benefits outweigh the costs of applying it. More broadly, the Revenue PIR process provided us with timely feedback on various aspects of our standard-setting process, including how we set effective dates for accounting standards, the value of a TRG, the interaction between the new standard and other GAAP guidance, and a deeper understanding of the time and complexity associated with pursuing a globally converged standard.

While the Revenue PIR process winds down a decade-long journey to help ensure the success of a standard that broadly affected all stakeholders, it doesn't mean our work on supporting the application of the revenue standard is done. As with all of our standards, the FASB will continue to monitor and, if and when appropriate, make improvements to the standard.

In closing, we want to thank our FASB colleagues, past and present, who participated in this journey, as well as the FAF Trustees and staff who originally launched and continue to oversee and support the PIR process. Above all, we thank all of our stakeholders who generously took the time to share with us their expertise, insights, and professional experiences to help us better understand the standard's impact and whether it fulfilled the Board's expectations. We encourage you to continue to engage with us to help ensure all our standards and activities continue to evolve to meet the needs of our capital markets.

Richard R. Jones
Chair,
Financial Accounting Standards Board

Jackson M. Day
Technical Director,
Financial Accounting Standards Board

Post-Implementation Review Summary Report

Topic 606—Revenue from Contracts with Customers

Revenue PIR Process Overview

The Post-Implementation Review (PIR) process is an evaluation of whether a standard is achieving its objective by providing investors and other financial statement users with relevant information in ways that justify the cost of providing it. The PIR process is an important quality control mechanism built into the Board's standard-setting process that begins after the issuance of select standards and is conducted under the oversight of the FAF Board of Trustees. The PIR process assists the Trustees in evaluating the effectiveness of the standard-setting process.

The objectives of the Revenue PIR process include:

Objectives

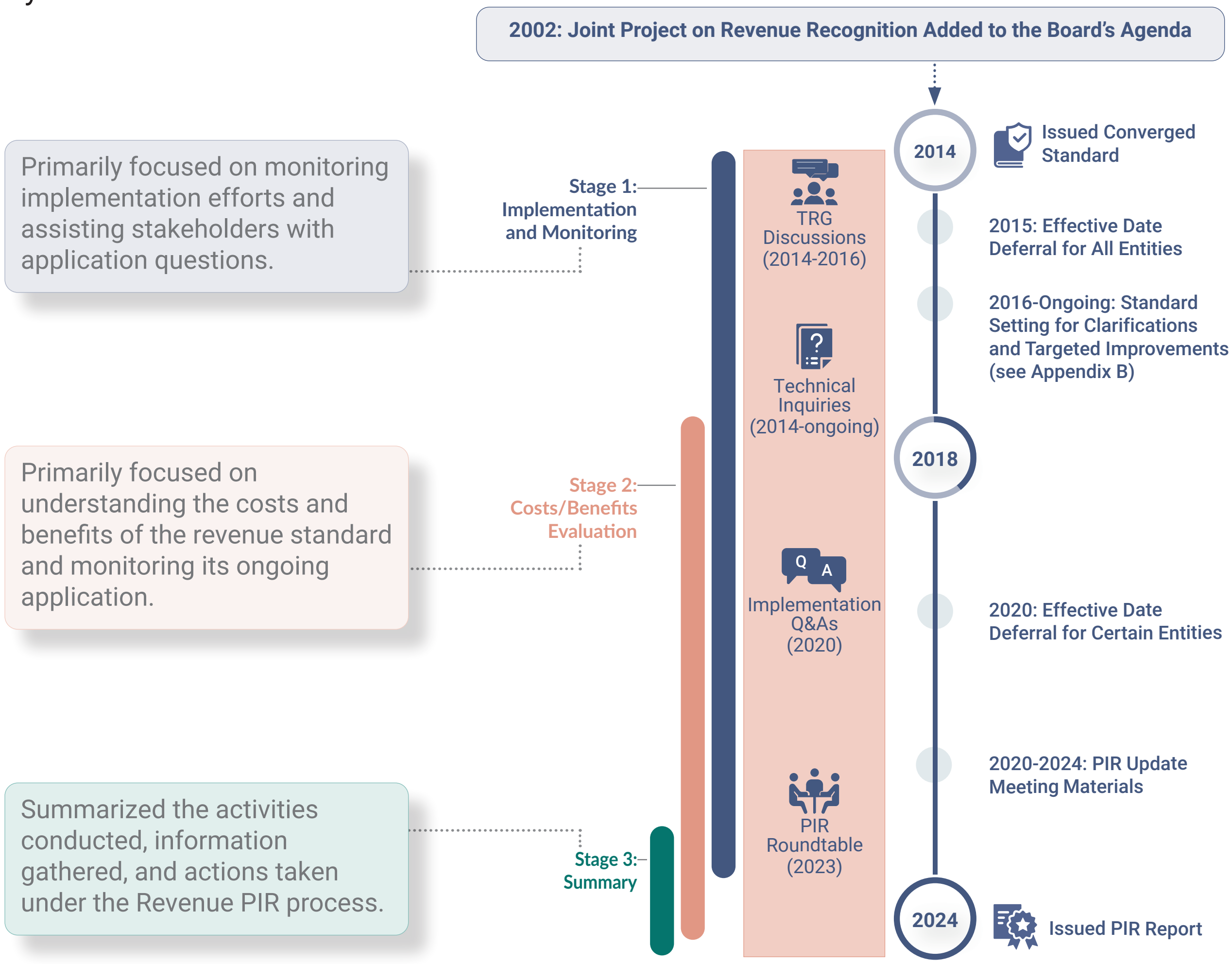
- Determine whether the revenue standard is accomplishing its stated purpose
- Evaluate the revenue standard's implementation and continuing compliance costs and related benefits
- Provide feedback to improve the standard-setting process.

The Revenue PIR process involved extensive research and outreach, including the following key activities:

Key Activities

- Engaged approximately 2,200 stakeholders with diverse backgrounds
- Issued 251 public documents, including Board meeting materials, Transition Resource Group (TRG) memos, Exposure Drafts, Accounting Standards Updates, and other materials
- Responded to more than 500 implementation questions through the TRG and the Technical Inquiry Service
- Held 56 Board meetings on implementation matters, subsequent standard setting, and PIR updates.

The following timeline presents the different phases of the Revenue PIR process and some of the Board's key activities:



As a result of the activities conducted during the Revenue PIR process, the following effects of the revenue standard and implementation efforts were observed:

Effects of the Revenue Standard	Implementation Efforts
▸ Created a single model for revenue transactions as well as detailed implementation guidance. ▸ Provided principles-based guidance that requires additional judgment in application. ▸ Expanded disclosures about and disaggregation of revenue for investors. ▸ Resulted in globally aligned and converged guidance on revenue recognition. ▸ Most entities did not have material changes to reported revenues.	▸ Significant and needed implementation support through the TRG and subsequent standard setting assisted with high-quality implementation. ▸ Many entities comprehensively reviewed existing contracts and practices. ▸ Entities made changes to processes and controls, including those entities without material changes to reported revenues. ▸ Implementation efforts were significant, especially in industries for which previous industry-specific revenue guidance was removed.

Engaging Stakeholders

Stakeholder feedback is critical not only to the standard-setting process but also to the PIR process. The staff strives to access a broad spectrum of stakeholder perspectives in an unbiased, objective manner. During the Revenue PIR process, broad stakeholder feedback was solicited to ensure timely support for the high-quality implementation of the revenue standard and a well-informed evaluation of its actual benefits and costs.

Reaching Stakeholders with Diverse Perspectives

From 2014 to 2024, the staff engaged with approximately 2,200 stakeholders as part of the Revenue PIR process, including:

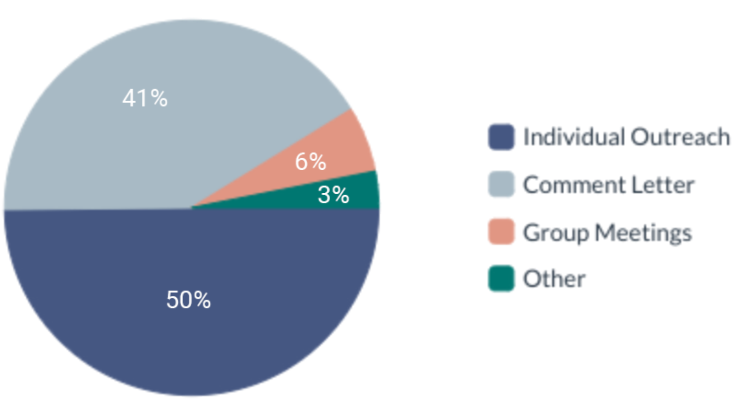
- Investors, including buy-side portfolio managers, sell-side analysts, accounting analysts, credit rating agency analysts and managers, lenders, and other capital providers (e.g., private equity)
- Preparers, including public companies, private companies, and not-for-profit entities, representing a variety of industries and sizes
- International, national, and regional practitioners
- Other stakeholders, such as trade groups, state CPA societies, regulators, other standard setters, and academics.

In our effort to seek a wide range of stakeholder perspectives, we heard from stakeholders through individual interviews, group discussions, advisory group meetings, a public roundtable, surveys, comment letter responses, webcasts, and conferences.

What Kind of Stakeholders Did We Engage With?

[1] "Other" includes the following: academics, standard setters, state societies, trade groups, regulators, and others.

How Did We Hear from Stakeholders?



Stakeholder feedback is critical to the PIR process to ensure timely support for high-quality implementation of the standard.

What Stakeholders Say about the Revenue Standard

Revenue recognition has historically been an area of financial reporting that is highly scrutinized by stakeholders (including investors, auditors, and regulators) because of the importance of revenue metrics. Overall, stakeholder feedback on the revenue standard has been positive. The revenue standard resolves the issues underlying its need and provides decision-useful information. Because the revenue standard resulted in widespread changes to the guidance, some implementation issues were raised after issuance that had not been anticipated during deliberations. Implementation support from the Board and the staff and from third parties (such as other standard setters and industry groups) aided stakeholders in addressing those issues.

BENEFITS

- Investors generally agreed that Topic 606 provides more useful and transparent information, especially through improved disclosures. Investors also agreed that Topic 606 improves the consistency and comparability of revenue across industries and achieves its expected benefits in a majority of industries.
- Other stakeholders, including practitioners and preparers, noted that principles-based guidance with the application of judgment allows for better alignment of revenue recognition with the economics of the underlying transactions and is more adaptable to an evolving business environment.
- Some stakeholders said that the new revenue standard helps entities better understand their contracts and improve their internal processes around revenue recognition.
- Most stakeholders viewed convergence with IFRS Accounting Standards as a significant accomplishment.

COSTS

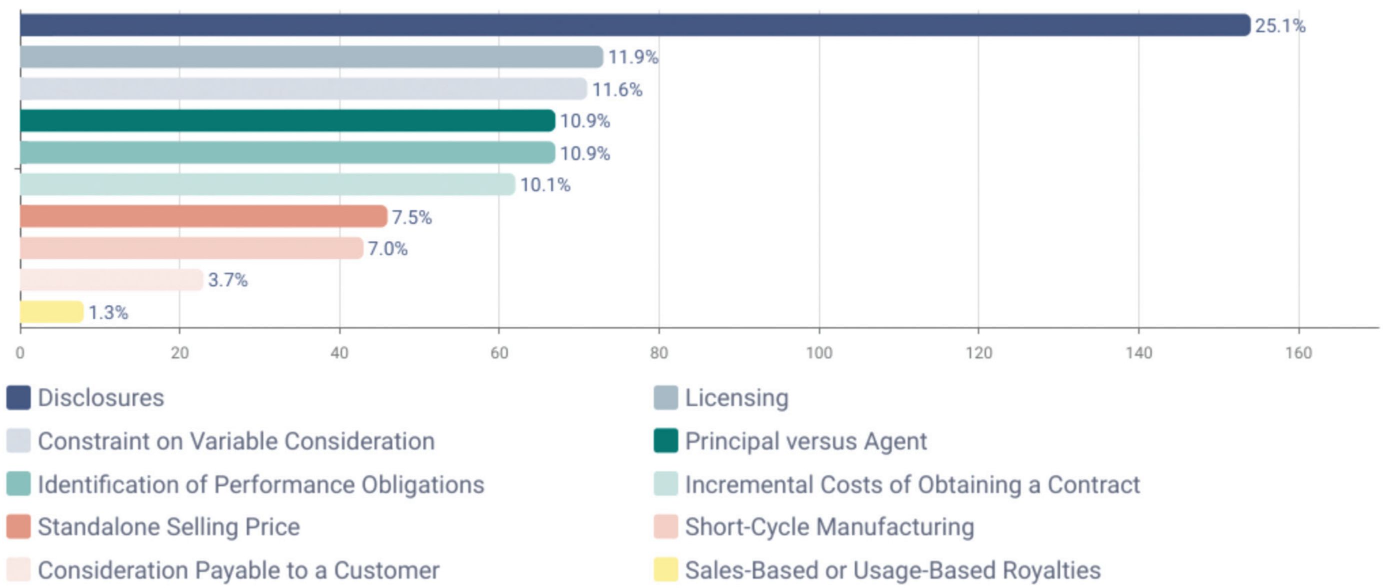
- While the nature of costs were consistent with the Board's expectations, stakeholders noted that implementation costs were significant, especially in industries for which prior industry-specific revenue guidance was removed.
- Although investors had to expend effort to learn Topic 606 and understand revenue trends during the transition period, for most industries the costs incurred by investors were generally one-time costs.
- Most preparers noted that their reported revenue was not materially affected, although they still had to comprehensively review their existing contracts and practices and make changes to their processes and controls.
- Stakeholders noted that certain costs persisted beyond the implementation period. They also acknowledged that, in some cases, certain ongoing costs, such as costs to analyze emerging and complex arrangements and to establish related controls, are not solely attributable to the revenue standard but are a result of business growth and innovation and would have been incurred in many cases under the previous guidance.

Overall, stakeholders welcomed Topic 606 and agreed that the benefits of the revenue standard outweigh its costs, especially from a long-term perspective.

While many expected benefits were identified, the new revenue standard was not expected to eliminate all challenges or judgments in its application. Rather, part of the objective was to provide a more consistent and coherent framework for applying the guidance to revenue transactions.

Stakeholders that participated in the Revenue PIR process provided feedback on areas of the guidance that were challenging to apply. The following chart displays the 10 areas mentioned most frequently, showing both the number of mentions that each area received and its percentage of the total mentions on the 10 areas:

Ten Challenging Areas Identified by Stakeholders



PIR research indicated that those challenges were mitigated by the key implementation support from the Board and the staff with input from the TRG and stakeholders after issuance, including issuing targeted improvements and implementation Q&As. The challenges generally resulted from the following factors:

- Some areas of the new revenue standard required application of significant judgment or estimation by management.
- Many of the implementation challenges were the result of fundamental changes to the revenue standard from the prior revenue guidance in Topic 605 and elsewhere.
- Certain challenges were driven by emerging business models with complex and evolving transactions (including principal versus agent considerations, licensing transactions, and determining performance obligations).

Broadly, with the transition support provided, stakeholders generally indicated that no significant changes were needed to the underlying core model in the revenue standard to address those challenges but that some of the areas may need to be addressed in targeted standard setting in the future (for example, principal versus agent considerations).

PIR Highlights

The Revenue PIR process encompasses many different activities to support high-quality implementation of the revenue standard and to evaluate the effectiveness of the revenue standard and its related costs and benefits.

Transition Resource Group (TRG)

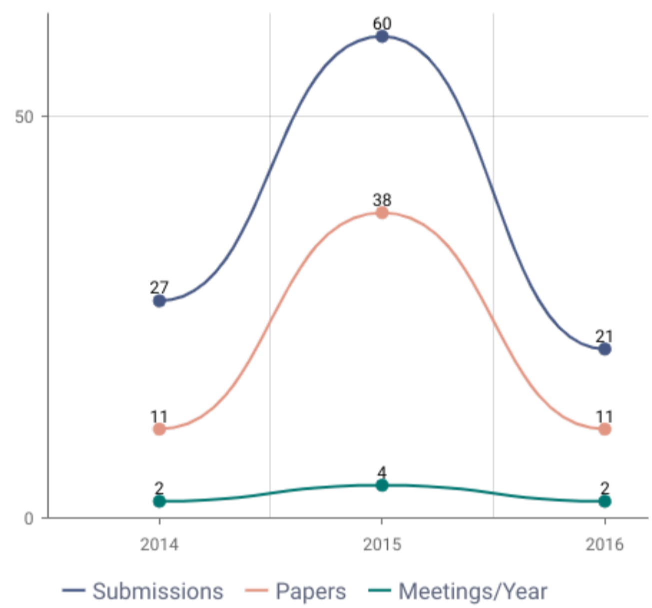
The FASB and the IASB jointly established the TRG in 2014, shortly after issuing their respective revenue standards. Given the significance and broad applicability of the revenue standard, the Boards created the TRG to proactively identify interpretive issues that could arise during the implementation period and to provide transparency about the evaluation of those issues. The TRG comprised practitioners, preparers, and investors, each of whom contributed unique and practical insight into the revenue standard and its application.

Stakeholders acknowledged the importance of the TRG and its significant contribution to the initial implementation of the revenue standard.

The purpose of the TRG was to:

- Solicit, analyze, and discuss stakeholder issues arising from implementation of the new guidance
- Inform the FASB and the IASB about implementation issues and help the Boards determine what, if any, action was needed to address those issues
- Provide a forum for stakeholders to learn about the new guidance from others involved with implementation.

What Did the TRG Accomplish over the Years?



The TRG provided timely and valuable input to several Accounting Standards Updates issued by the Board to clarify the application of the revenue standard. Stakeholders also acknowledged the importance and transparency of the TRG and its significant contribution to the initial implementation of the revenue standard. Overall, the staff observes that the TRG played a critical role in ensuring that Topic 606 provides understandable and operational guidance that can be applied as intended.

Implementation Q&As

As part of the Board's continuing commitment to educate stakeholders, the staff developed Revenue Recognition Implementation Q&As. The staff's objective in compiling this document was to improve the ease of navigating the educational resources.

- It incorporates previously issued staff and TRG memos and other educational materials.
- It was compiled in a user-friendly question-and-answer format organized by subject matter for ease of use.
- The decision to issue the Implementation Q&As was based on input from the Private Company Council.

The Q&As contain a broad range of subjects, as follows:

Q&As by Subject Area

Subject Area	Number of Q&As
Scope	6
Step 1: Identify the Contract	5
Step 2: Identify the Performance Obligation	13
Step 3: Determine the Transaction Price	19
Step 4: Allocate the Price to the Performance Obligation	2
Step 5: Recognize Revenue	15
Presentation	3
Contract Costs	17
Other	1

Technical Inquiry Service

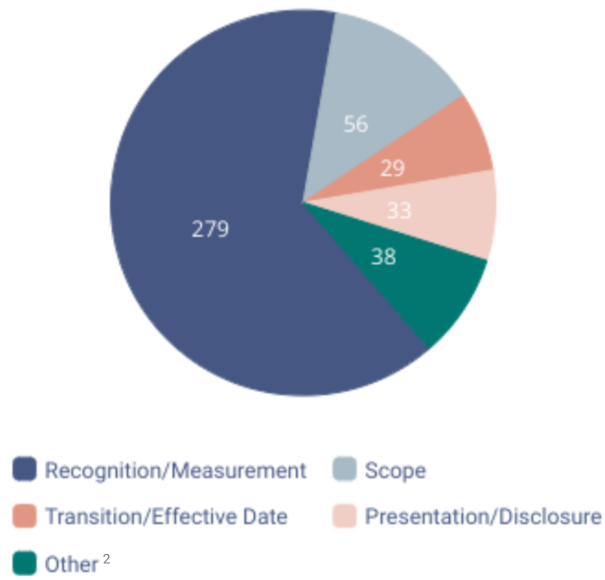
The objective of the FASB's Technical Inquiry Service is to clarify existing guidance or provisions within the *FASB Accounting Standards Codification®*.

Throughout the Revenue PIR process, the staff responded to more than 400 technical inquiries and provided necessary implementation support on a timely basis for a high-quality implementation of the revenue standard.

What Kind of Stakeholders Submitted Inquiries?

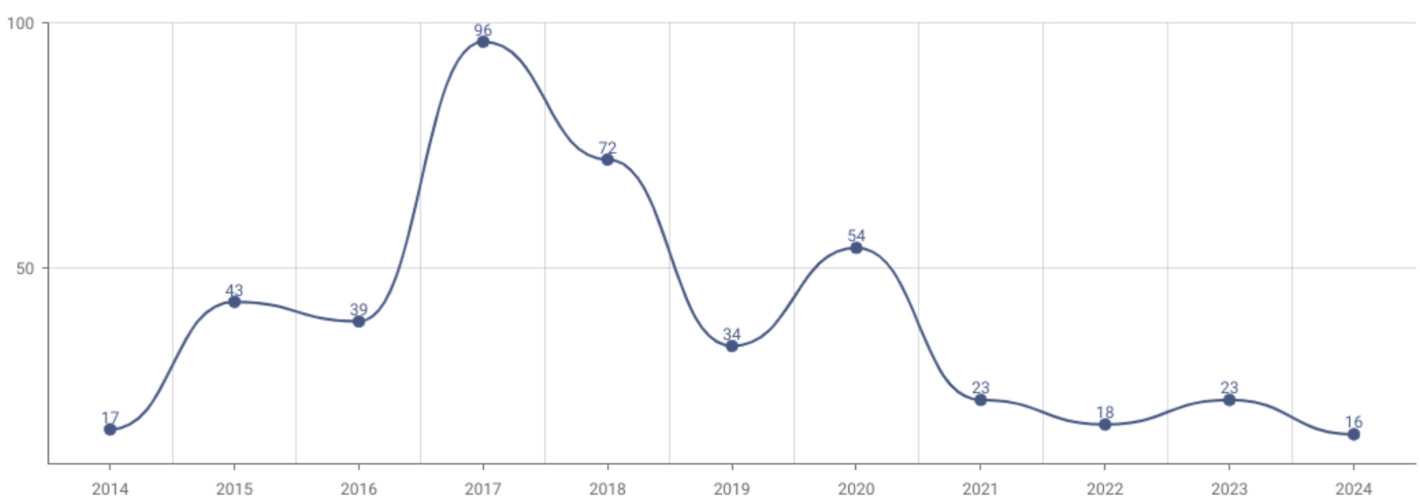
[1] "Other" includes the following: academics, trade groups, regulators, and others.

Inquiries by Subject Area



[2] "Other" includes inquiries on glossary terms and illustrative examples.

How Many Inquiries Did the Staff Respond to over the Years?



Board Meetings and Public Documents

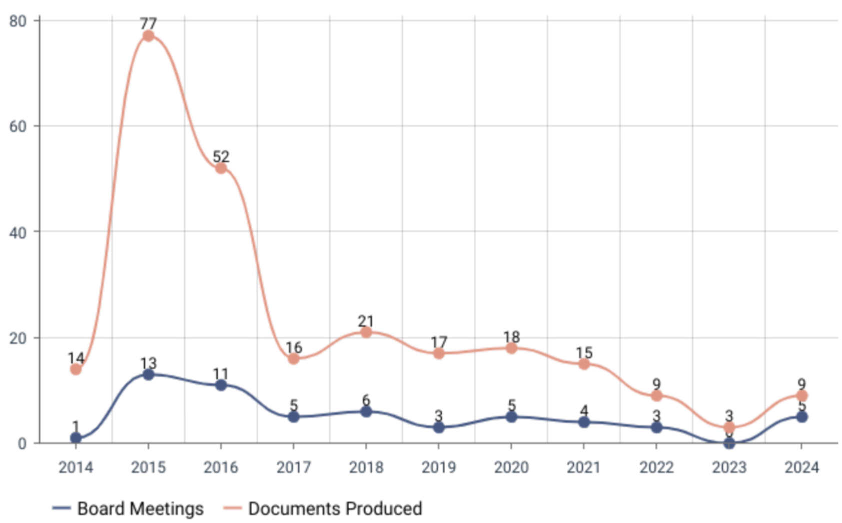
Throughout the PIR process, stakeholders were informed and involved.

More than 50 public Board meetings were held during which the Board discussed stakeholder feedback and deliberated revenue issues. In these meetings, the staff also provided the Board with updates on the PIR activities performed under the Revenue PIR process. Accordingly, more than 250 public documents were issued, including 11 Accounting Standards Updates for clarifications and targeted improvements (see Appendix B) in various areas and also for effective date deferrals to enable implementation.

Because of the converged nature of the revenue guidance under GAAP and IFRS Accounting Standards, the FASB and staff worked collaboratively with the IASB and staff:

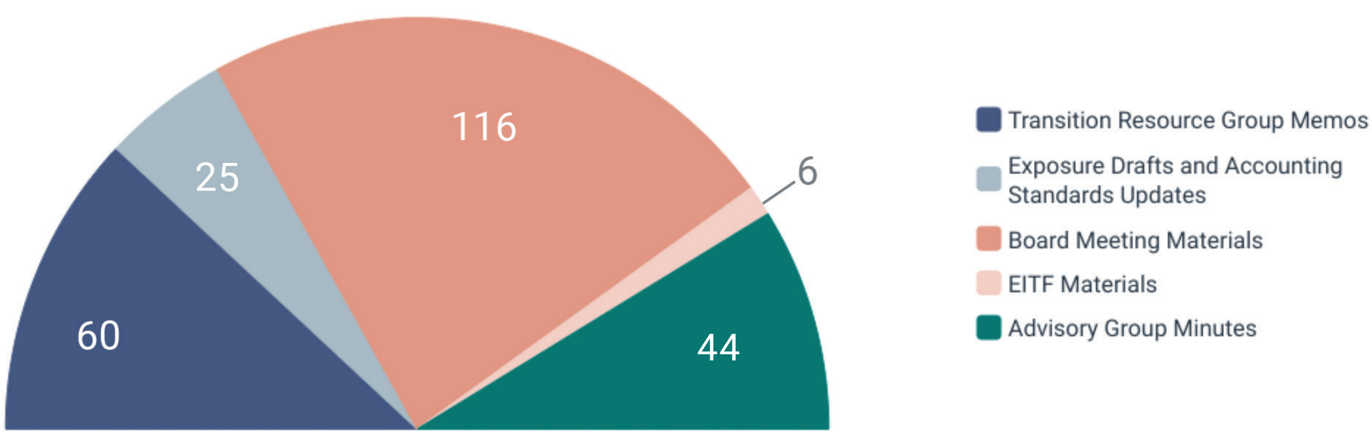
- To identify and discuss emerging implementation issues
- To discuss each Board's progress and findings on their PIR.

Board Meetings and Public Documents over the Years



The Board also encouraged academic research to assess certain aspects of the standard and provide information about the effectiveness of the standard, including co-hosting the Accounting for an Ever-Changing World conference in 2022, and discussed the findings from 24 academic papers reviewed by the staff.

Types of Documents Produced



Improvements to the Standard-Setting Process

The Revenue PIR process provided the Board with timely feedback to improve the standard-setting process in the following areas:

Effective Date

In response to stakeholders feedback, the Board deferred the effective date of the revenue standard twice, in 2015 and again in 2020.

In addition, the staff implemented new processes to better anticipate the length of time that it will take for a final standard to be issued and implemented and better evaluate how that timing affects the selection of the effective date.

Transition Resource Group

The TRG provided stakeholders with helpful information in implementing the revenue standard and identifying issues that the Board needed to address through additional standard setting.

For other major standards, the FASB will consider whether a TRG should be created and, if a TRG is established, whether to begin that process earlier and before a standard is issued.

Interaction with Other Guidance

Some improvements made to the revenue standard related to cross-cutting issues with other guidance, such as clarifying the accounting for contract assets and contract liabilities acquired in a business combination.

It is important to proactively identify cross-cutting issues in the standard-setting process and, specifically, to ensure that the scope guidance and the interaction with business combinations guidance are clear.

Converged Standard

The FASB and the IASB collaborated extensively between 2002 and 2016 to explore revenue recognition models, identify an achievable path forward, develop the converged standards, address implementation issues, and make targeted improvements or clarifications to their respective standards.

Nearly 50 joint meetings with more than 200 memos

One Discussion Paper and 2 Exposure Drafts issued before 2014, with more than 1,500 comment letters

Global convergence is a significant accomplishment, and the process to develop converged guidance may take additional time, add costs and complexity to the standard-setting process, and require additional implementation effort to accommodate global stakeholders. These benefits and costs should be weighed carefully if the Board considers pursuing globally converged standards in the future.

PIR Summary

Overall Conclusions

Based on all the activities conducted under the Revenue PIR process, the staff reached the following conclusions on Topic 606 and the standard-setting process:

- Although certain implementation challenges were experienced in the initial adoption of Topic 606, the Board provided support throughout the implementation period, including issuing amendments on targeted improvements and clarifications. As a result, Topic 606 accomplishes its stated purpose to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and IFRS Accounting Standards.
- The benefits and costs of Topic 606 are consistent with what the Board considered and stakeholders expected at the time that the revenue standard was issued, as documented in the basis for conclusions of Update 2014-09, and the benefits justify the implementation and ongoing compliance costs.
- The Revenue PIR process provided timely feedback to improve the standard-setting process, including feedback about setting effective dates for accounting standards, the timing of establishing a TRG, considering the interaction with other GAAP guidance (including clarifying the scope of the revenue standard compared with the scope of other guidance and clarifying how transactions are accounted for in business combinations), and acknowledging the added complexity and time associated with pursuing a globally converged standard with another standard setter. The Board also recognized that changing accounting standards can result in significant costs, even when financial reporting outcomes do not change.

What's Next

Upon concluding the Revenue PIR process, the staff has not identified any matters that warrant immediate standard-setting action on Topic 606.

The staff will:

- Continue to support the application of Topic 606 primarily through the Technical Inquiry Service
- Assess any need for targeted improvements to Topic 606 arising from the next Agenda Consultation or future agenda requests
- As part of the general standard-setting process, monitor for emerging practice issues or application issues related to the revenue standard that should be considered by the Board on a timely basis.

In addition, the staff and the Board will continue to incorporate the feedback obtained from the Revenue PIR process to improve future standard-setting activities.

See Appendix A for the Post-Implementation Review Detailed Report.

Post-Implementation Review Detailed Report

Topic 606—Revenue from Contracts with Customers

TABLE OF CONTENTS

	Page
Introduction	A-3
Stage 1: Post-Issuance Date Implementation Monitoring	A-9
Stage 2: Post-Effective Date Evaluation of Costs and Benefits	A-13
Stage 3: Summary of Research and Reporting	A-23

Introduction

Overview

The Post-Implementation Review (PIR) process is an evaluation of whether a standard is achieving its objective by providing financial statement users with relevant information in ways that justify the cost of providing it. The PIR process is an important quality control mechanism built into the FASB's standard-setting process, which begins after the issuance of select standards. During the PIR process, the Board solicits and considers diverse stakeholder input and other research to evaluate the standards that are issued and whether there are areas of improvements the Board should address.

The PIR process is part of the Financial Accounting Foundation's (FAF) Board of Trustees' oversight responsibilities for the FASB and the Governmental Accounting Standards Board (GASB). The PIR process assists the Trustees in evaluating the effectiveness of the standard-setting process for both the FASB and the GASB.

The Revenue PIR, which is the first FASB-led PIR project, began in 2014 after Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* was issued. The revenue standard was effective for public entities in calendar year 2018 and for other entities in calendar year 2020. The Revenue PIR process encompasses many different activities to support high-quality implementation of the revenue standard and to evaluate the effectiveness of the revenue standard and its related costs and benefits.

The Revenue PIR report includes this detailed report and the summary report. The detailed report is intended to provide additional insight into and detail on the Revenue PIR process.

General Background on the PIR Process[1]

PIR Objectives

The PIR process has three main objectives:

1. To determine whether a standard is accomplishing its stated purpose. This includes assessing whether:
   a. The standard resolved the issues underlying its need.
   b. Decision-useful information is being reported to, and used by, investors, creditors, and other users of financial statements.
   c. The standard is operational; that is, stakeholders can apply the standard as intended, the standard is understandable, and preparers are able to report the information reliably.
   d. Any significant unexpected changes to financial reporting or operating practices resulted from applying the standard.
   e. Any significant unanticipated consequences resulted from applying the standard.

[1]According to the information listed on the FASB's website (www.fasb.org/about-us/post-implementation-review-process).

2. To evaluate the selected standard's implementation and continuing compliance costs and related benefits. This includes assessing whether:
    a. Implementation and continuing compliance costs are consistent with the costs that the Board considered and stakeholders expected.
    b. Benefits are consistent with what the Board intended and stakeholders expected.
3. To provide feedback to improve the standard-setting process. This includes assessing whether the results of the review suggest that improvements are needed.

PIR Process

The PIR process comprises three stages:

Stage 1: Post-Issuance Date Implementation Monitoring

This stage begins immediately after the issuance of the standard. During the post-issuance date implementation monitoring period (and before the effective date), the Board will:

1. Actively monitor practice as stakeholders prepare for initial implementation of the standard
2. Develop and disseminate implementation guidance and educational materials
3. Communicate and perform outreach with stakeholder organizations, including outreach with the academic community (leveraging advisory councils, committees, and resource groups where applicable) to generate interest in research activities associated with the standard that is the subject of the PIR process.

After the effective date of the final standard, the staff will perform an archival review of financial reports and survey financial statement preparers (with the assistance of the academic community when needed).

Stage 2: Post-Effective Date Evaluation of Costs and Benefits

This stage begins after the effective date of the final standard. Stage 2 activities consist of:

1. Understanding the costs that an entity incurred in applying the standard as well as the costs that investors and other users incurred in analyzing and interpreting the information that the standard provides
2. Understanding the benefits of the standard to investors and other users as well as to entities
3. Monitoring the ongoing application of the standard.

In this stage, academic research may be sponsored or encouraged to assess certain aspects of the standard to provide information on the effectiveness of the standard.

Stage 3: Summary of Research and Reporting

Following the completion of Stages 1 and 2, the Board summarizes their research in a final report. The final report is a culmination of previous periodic updates and describes the activities conducted and actions taken to address any identified issues. In addition, a memorandum summarizing the PIR findings is prepared and discussed by the Board at a public meeting.

Oversight of the PIR Process

The PIR process is subject to FAF Board of Trustees oversight throughout all three stages.

The staff reports on the progress of PIR projects during the Board's public meetings and reports regularly to the Standard-Setting Process Oversight Committee (SSPOC) of the FAF Board of Trustees. The final PIR report is reviewed by the SSPOC and published on the FAF website.

Background on Topic 606—Revenue from Contracts with Customers

Revenue is an important metric to investors in assessing an entity's financial performance. The previous revenue guidance, which comprised broad revenue recognition concepts (some of which were included in guidance issued by the Securities and Exchange Commission and staff), together with numerous revenue requirements for particular industries or transactions, were developed by various standard setters to address narrow issues or transactions without reference to a common framework. Consequently, issues about recognizing revenue were often difficult to resolve and economically similar transactions sometimes yielded differing revenue recognition. In addition, the disclosures required under the previous revenue guidance were inadequate and often did not provide investors with information to sufficiently understand revenue arising from contracts with customers.

In 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which amended the *FASB Accounting Standards Codification*® and created a new Topic 606. The revenue standard was developed under a joint project with the International Accounting Standards Board (IASB) to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and IFRS Accounting Standards. At the same time, the IASB issued IFRS 15, *Revenue from Contracts with Customers.* The standards issued by the FASB and by the IASB were converged except for some minor differences.

As compared with the previous revenue guidance, the new revenue standard is largely principles-based and can be applied to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. By providing a framework for addressing revenue recognition issues comprehensively for entities that apply GAAP, the new revenue standard reduces the number of requirements that an entity must consider in recognizing revenue; significantly enhances comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; and is expected to remain relevant as markets and transactions evolve.

Additionally, the guidance requires additional disclosures to help investors better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The comprehensive disclosure package under the new revenue standard improves the understandability of revenue, which is a critical part of the analysis of an entity's performance and future prospects.

To support implementation of the new converged standards, the FASB and the IASB jointly formed a Transition Resource Group (TRG). In response to a series of discussions by the TRG, the FASB and the IASB made targeted improvements or clarifications to their respective standards through subsequent standard-setting activities to address significant implementation issues that were raised when entities began implementing the standards. Many of the targeted improvements or clarifications, including the clarifications to the guidance on principal versus agent considerations and on identifying performance obligations, are the same or similar between Topic 606 and IFRS 15 to maintain the standards' convergence in their core principles.

Topic 606 Accounting Model

The core principle of Topic 606 is that an entity should 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 those goods or services.

To achieve that core principle, an entity should apply the following steps:

- **Step 1: Identify the contract(s) with a customer.** An entity should assess whether the rights of the parties to a contract and the payment terms could be identified, whether the contract has commercial substance, and whether it is probable that it will collect the consideration.
- **Step 2: Identify the performance obligations in the contract.** A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- **Step 3: Determine the transaction price.** The transaction price is the amount of consideration (for example, payment) to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The consideration could be fixed, variable, or a mix and could be in cash or other forms other than cash (such as shares or share options).
- **Step 4: Allocate the transaction price to the performance obligations in the contract.** For a contract that has more than one performance obligation, an entity should allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for satisfying each performance obligation. The entity must determine the standalone selling price at contract inception of the distinct goods or services underlying each performance obligation and typically would allocate the transaction price on a relative standalone selling price basis.
- **Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.** An entity should recognize revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service. A performance obligation could be satisfied over time or at a point in time.

Expected Benefits and Costs

The FASB expected the following benefits from the new revenue standard[2]:

1. A comprehensive framework that will:
    a. Remove inconsistencies and weaknesses in previous revenue requirements
    b. Provide a more robust framework for addressing revenue issues:
        i. Provide a basis that should be more easily applied to complex transactions and that provides timely guidance for evolving revenue transactions
        ii. Create greater consistency in the accounting for economically similar transactions
        iii. Fill a gap by providing guidance for revenue transactions that had not previously been addressed comprehensively, such as guidance for revenue resulting from the provision of services and revenue from licenses of intellectual property.

[2]This is stated in the benefits and costs section of the basis for conclusions in Update 2014-09 (paragraphs BC454 through BC493).

   c. Provide a better depiction of entities' performance
   d. Simplify the preparation of financial statements by reducing the number of requirements to which an organization must refer.
2. Increased comparability:
   a. Improved comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets:
      i. Converge with IFRS Accounting Standards
      ii. Eliminate industry-specific guidance.
   b. Provide greater comparability and consistency of reporting revenue from contracts with customers.
3. Disclosures:
   a. Provide comprehensive disclosure requirements that are intended to greatly improve the information about revenue reported in the financial statements and improved understanding of entities' contracts and revenue-generating activities.

The FASB expected the following costs to be incurred related to applying the new revenue standard[3]:

1. Compliance costs for preparers:
   a. Costs to implement changes in or develop new systems, processes, and controls used to gather and archive contract data, make required estimates, and provide required disclosures, possibly including fees paid to external consultants
   b. Costs to hire additional employees that may be needed to comply with Topic 606 and modify processes and internal controls accordingly
   c. Incremental fees paid to external auditors to audit the financial statements in the period of initial application of Topic 606
   d. Costs required to educate management, finance, and other personnel about the benefits and costs of Topic 606
   e. Costs required to educate investors about the benefits and costs on the financial statements.
2. Costs of analysis for investors:
   a. Costs to modify their processes and analyses. However, the costs are likely to be nonrecurring and are likely to be offset by a longer term reduction in costs from the additional information that would be provided by the improved disclosure guidance.

[3]This is stated in the benefits and costs section of the basis for conclusions in Update 2014-09 (paragraphs BC454 through BC493)

The Board modified or clarified many aspects of the revenue standard to reduce implementation challenges and clarify application. Adjustments to the guidance, both during its initial deliberations of the revenue standard and during Stage 1 of the Revenue PIR process, to reduce the expected costs included:

- Modifications and clarifications provided to address application challenges (such as clarifying the use of portfolios, practical expedients, disclosure requirements, optional transition guidance, and additional illustrations)
- Deferral of effective dates
- Additional Updates issued in response to implementation issues raised to the TRG (principal versus agent determinations, identifying performance obligations and licensing, noncash consideration, and collectibility).

Stage 1: Post-Issuance Date Implementation Monitoring

Overview

As described above, Stage 1 of the Revenue PIR process started after the issuance of Update 2014-09 in 2014. During this stage, the staff primarily focused on monitoring implementation efforts and assisting stakeholders with application questions. Those activities continued through mid-2021 when nonpublic entities had completed their adoption.

The new revenue standard represented a fundamental change in the revenue recognition model and resulted in a significant learning curve for stakeholders to understand the guidance (which resulted in questions raised on various aspects of Topic 606 during the implementation process) and necessitated significant efforts for stakeholders to apply the guidance. The wide variety and complexity of transactions and the degree of judgment involved in applying the new revenue standard also made the implementation challenging. To achieve a high-quality implementation of the new revenue standard, the Board established the TRG shortly after the issuance of the revenue standard as the primary resource to support the implementation process. The TRG was essential to the adoption of Topic 606. From 2014 to 2016, the TRG held public meetings and issued public educational memos to discuss and address various implementation issues. As a result of those discussions, several Accounting Standards Updates were issued during this period. In addition, the effective date was deferred twice for nonpublic entities and once for public entities to allow sufficient time for stakeholders to achieve a high-quality implementation. See Appendix B for the list of Accounting Standards Updates issued as part of the Revenue PIR process.

Other implementation monitoring and support activities included individual outreach, advisory group meetings, conference presentations, technical inquiries, investor educational videos and webcasts, educational sessions for regulators, other educational materials and webcasts, and discussions with other standard setters, including ongoing discussions with the IASB and its staff. Because of the converged nature of the revenue guidance under GAAP and IFRS Accounting Standards, the FASB and staff worked collaboratively with the IASB and staff during Stage 1 of the Revenue PIR process to identify and discuss emerging implementation issues and as a result issued subsequent amendments to each respective revenue standard.

Findings and the FASB's Response

Throughout Stage 1 of the Revenue PIR process, including the activities described below, a wide variety of feedback was received and as a result certain clarifications and targeted improvements were made to the revenue standard.

Stakeholders' feedback indicated that the revenue standard is operational, following the amendments made during Stage 1. That is, after certain clarifications and improvements, stakeholders can apply the standard as intended, the standard is understandable, and preparers are able to report the information reliably (**PIR Objective 1(c)**).

In response to stakeholders' feedback, timely improvements were made to certain elements of the standard-setting process (**PIR Objective 3**).

Transition Resource Group

As noted above, the FASB and the IASB jointly established the TRG in 2014, shortly after issuing their respective revenue standards. Given the significance and broad applicability of the revenue standards, the Boards created the TRG to proactively identify interpretive issues that could arise during the implementation period and to provide transparency surrounding the evaluation of those issues.

TRG members included practitioners, preparers, and investors, each of whom contributed unique and practical insight into the revenue standard and its application. From 2014 to 2016, the TRG held eight public meetings, six of which were joint meetings between the FASB and the IASB, to analyze stakeholder issues that could have reasonably created diversity in practice. In connection with the TRG activities, 60 public educational memos were issued, the majority of which were issued jointly by the FASB staff and the IASB staff. The FASB also issued several Accounting Standards Updates during this period to clarify the application of the revenue standard, many of which related to issues that had been discussed by the TRG.

Subsequently, the FASB issued the Revenue Recognition Implementation Q&A, incorporating content from the previously issued staff memos and TRG memos and other educational materials into a user-friendly guide organized by subject matter.

During the Revenue PIR process, stakeholders acknowledged the importance of the TRG and its significant contribution to the initial implementation of the revenue standard. Overall, the staff observes that the TRG played a critical role in ensuring that Topic 606 provides understandable and operational guidance that can be applied as intended.

Amendments to Provide Clarifications and Targeted Improvements

In large part due to feedback obtained through the TRG, the Board identified certain application issues significant enough to warrant amending the standard before the initial effective date for public entities. Specifically, in 2016 the Board issued amendments to Topic 606 that:

- Provided additional implementation guidance on principal versus agent considerations
- Clarified the guidance on identifying performance obligations and the implementation guidance on licensing
- Reduced diversity in practice and the cost and complexity of applying the guidance related to certain narrow-scope improvements and provided additional practical expedients
- Made certain technical corrections and improvements to the revenue standard.

To further improve understandability and operability of the revenue standard, the Board issued certain amendments that clarified the interaction of other Topics with the revenue standard. For example, the Board issued amendments to clarify (1) the guidance on derecognition of nonfinancial assets, (2) the interaction between the new revenue guidance and the existing collaborative arrangements guidance, and (3) the accounting for acquired revenue contracts with customers in a business combination. In addition, the Board issued guidance to simplify the application of the revenue standard by nonpublic franchisors to certain franchise arrangements. The Board issued nine Accounting Standards Updates between 2015 and 2021.

Effective Date Deferral

Following the issuance of Update 2014-09, the FASB received feedback from preparers, practitioners, and investors requesting a deferral of the effective date. Stakeholders noted that providing sufficient time for implementation was critical to the success of the new revenue standard. In response to that stakeholder feedback and considering the status of in-process Accounting Standards Updates (the majority of which were issued in 2016) and the availability of information technology solutions to facilitate the implementation of the new guidance, the Board issued amendments in August 2015 deferring the effective date for all entities by one year.

During the COVID-19 pandemic, the Board issued an additional deferral of the effective date to provide immediate, near-term relief for certain nonpublic entities.

Each deferral was carefully considered by the Board and ultimately issued to enable preparers to report information reliably.

Improvements to the Standard-Setting Process

The Revenue PIR process provided the Board with timely feedback to improve the standard-setting process in the following areas.

Effective Date

In response to stakeholders' feedback surrounding the effective date of the revenue standard, the staff implemented new processes to better anticipate the length of time that it will take for a final standard to be issued and implemented and better evaluate how that timing affects the selection of the effective date. The list of factors that the Board considers when setting a standard's effective date include:

- Urgency for new guidance
- Relationship between release date and interim and/or annual reporting periods
- Complexity of new guidance
- Amount of time needed to update information systems and processes
- Amount of time needed to engage third-party experts
- Amount of time needed to modify accounting before initial application
- Effective dates of other Updates
- Transition method.

TRG

The Board improved the implementation support process related to the TRG. Because the TRG provided stakeholders with helpful information in implementing the revenue standard and identifying issues that the Board needed to address through additional standard setting, the FASB will consider whether the TRG should be established for other major standards, and if so, whether to begin that process earlier and before a standard is issued. For example, the first meeting of the TRG for the current expected credit loss guidance (CECL TRG) was held in September 2015, which was before the issuance of the final Update in June 2016. The pre-issuance CECL TRG meetings helped ensure that the guidance in the forthcoming standard clearly reflected the Board's decisions.

Interaction with Other Guidance

Some of the clarifications and targeted improvements that the Board addressed after the revenue standard was issued related to cross-cutting issues between the revenue standard and other guidance. For example, the Board issued Accounting Standards Updates in 2018 to clarify (a) the scope and the recognition guidance for contributions received and contributions made for not-for-profit entities and (b) the interaction between Topic 808, Collaborative Arrangements, and Topic 606. In addition, in response to stakeholders' questions about the interaction between Topic 606 and Topic 805, Business Combinations, the Board issued an Accounting Standards Update in 2021 to clarify that an entity (an acquirer) should account for contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. Those questions had first been raised to the Board in 2018. As a result, it is important to proactively identify cross-cutting issues in the standard-setting process and, specifically, to ensure that the scope guidance and the interaction with business combinations guidance are clear.

Converged Standard

In 2002, the FASB and IASB started a joint project to develop the converged revenue standards. At the time, it was believed that convergence was appropriate because improving guidance was a high priority for both the FASB and the IASB and revenue is an important metric to investors in assessing nearly all entities' financial performance. Between 2002 and 2016, the FASB and the IASB collaborated extensively to explore the revenue recognition models, identify an achievable path forward, develop the converged standards, address implementation issues, and make targeted improvements or clarifications to their respective standards. Before the issuance of the converged revenue standards in 2014, one Discussion Paper and two Exposure Drafts were issued with more than 1,500 comment letters received in total. Nearly 50 joint Board meetings were held during that time with more than 200 joint Board memos issued. Subsequent to the issuance of the revenue standard in 2014, the FASB also issued additional amendments on clarifications and targeted improvements in response to the requests from its stakeholders to address implementation questions.

Developing the converged revenue standards was a complex undertaking because the then-existing guidance was different under GAAP and IFRS, including the Boards' respective conceptual frameworks, and stakeholders in different jurisdictions provided different feedback about their priorities. Stakeholders indicated that the converged guidance was a significant benefit. Overall, the FASB devoted a significant amount of time and effort to develop a globally converged revenue standard and to support the implementation process. Global convergence is a significant accomplishment and the process to develop converged guidance may take additional time, add costs and complexity to the standard-setting process, and require additional implementation effort to accommodate global stakeholders. These benefits and costs should be carefully weighed if the Board considers pursuing globally converged standards in the future.

Stage 2: Post-Effective Date Evaluation of Costs and Benefits

Overview

Stage 2 of the Revenue PIR process began after the adoption of Topic 606 by public entities in 2018. The staff primarily focused on understanding the costs and benefits of the revenue standard and monitoring its ongoing application. The PIR activities under Stage 2 concluded in October 2024 when the Board held its last public Board meeting on the Revenue PIR process.

The main activities during Stage 2 included providing ongoing support through responding to technical inquiries; soliciting feedback from stakeholders through advisory group meetings, outreach discussions, surveys, and a public roundtable on the costs, benefits, and implementation challenges of the revenue standard; reviewing academic literature, including co-hosting the Accounting for an Ever-Changing World conference; and continuously communicating with the IASB and its staff on each Board's progress on their PIR, including public joint Board meetings to discuss PIR updates in February 2015, March 2015, June 2015, December 2015, June 2018, July 2019, November 2020, and June 2024. The staff had been monitoring the IASB's discussions and decisions on the findings identified from the IASB's PIR process on its revenue standard and reviewed its final PIR report issued in September 2024.

The Board also issued two proposed Accounting Standard Updates in 2024 to clarify the interaction between the revenue standard and other guidance under GAAP in the following two areas:

1. Scope clarification for a share-based payment received from a customer in a revenue contract
2. Clarifications to share-based consideration payable to a customer.

Findings and the FASB's Response

Throughout Stage 2 of the Revenue PIR process, including the activities listed below, a wide variety of feedback was received. The staff performed related research and provided the Board with periodic updates.

Stakeholders' feedback and the staff's research indicated that the revenue standard accomplished its stated purposes. Specifically, the revenue standard addressed the issues it was intended to address and provides decision-useful information. Because the revenue standard resulted in widespread changes to the guidance, some implementation issues were raised after issuance that had not been anticipated during initial deliberations. For example, the Board did not anticipate many of the questions related to consideration payable to a customer, collaborative arrangements, and how control affected the principal versus agent analysis. Implementation support from the Board and the staff and from third parties (such as other standard setters and industry groups) aided stakeholders in managing through those issues. Because of the implementation support, the staff did not identify issues that are considered significant in terms of their pervasiveness and ongoing effect of applying the guidance. Therefore, following amendments on targeted improvements and clarifications and with timely implementation support, the revenue standard is operational and does not result in significant unexpected changes to financial reporting or operating practices or significant unanticipated consequences (**PIR Objective 1(a)–1(e)**).

Stakeholders' feedback also indicated that the benefits and costs of the revenue standard are consistent with what the Board considered and stakeholders expected and that the benefits justify the costs (**PIR Objective 2**).

Benefits and Costs Evaluation

In Stage 2 of the Revenue PIR process, the staff gathered evidence about the benefits and costs of Topic 606 from nearly a thousand stakeholders through various stakeholder-engagement events, including advisory group meetings, surveys, group stakeholder meetings, and interviews. The evidence was collected from stakeholders with diverse backgrounds, from varying entity sizes, and from different types of entities and industries.

Overall, stakeholders provided positive feedback about the benefits of Topic 606. Stakeholders observed that the revenue standard achieved its expected benefits. Investors noted that they are receiving better information about an entity's contract terms, revenue recognition policy, and revenue reported on the financial statements. In addition, stakeholders generally observed that Topic 606 improves the consistency or comparability of revenue across sectors, although some stakeholders observed reduced comparability within certain sectors, such as software. Investors also noted that, compared with Topic 605, disclosures under Topic 606 provide more context around revenue. Some investors explained that the disclosure requirements result in greater transparency, have improved their understanding of businesses, and enhance comparability period-to-period and across industries. Moreover, some investors observed increased comparability among entities in different markets as a result of the converged guidance under GAAP and IFRS Accounting Standards.

Although most preparers noted that their financial statements were not materially affected by the new revenue standard and that in some cases they incurred significant costs in adopting the new revenue standard, they would still benefit from the new revenue standard in other various aspects, especially from a long-term perspective. Some preparers noted that the implementation of Topic 606 helped them better understand their contracts and revenue-related business activities, such as how their sales teams negotiate contract terms with customers or the types of goods and services offered to customers. Some preparers noted that the implementation process strengthened internal controls around their revenue recognition processes.

Both investors and preparers generally agreed that the five-step framework under Topic 606 is easier to understand and allows more judgment, although significant implementation efforts were needed when the revenue standard was initially adopted. In addition, some stakeholders viewed convergence with IFRS Accounting Standards as a significant accomplishment. They noted that convergence provided a single framework for entities around the world to report revenue and simplified the reporting process, particularly for multinational companies.

Stakeholders noted that the types of implementation costs incurred generally aligned with the Board's expectations. While the nature of costs was in line with expectations, stakeholders noted that the extent of the costs was significant, especially in industries for which previous industry-specific revenue guidance was removed. Investors incurred mostly one-time costs to become familiar with the new guidance, update models and processes, maintain dual models, and track changes during the transition period. Investors experienced more costs in certain industries, such as software. However, investors did not experience significant costs in industries that did not have material changes to the timing of revenue recognition under Topic 606 as compared with the previous guidance. Entities that did not have a material change as a result of the new revenue guidance observed that they generally did not have significant changes in their IT systems. Preparers that reported material changes as a result of adopting the new revenue standard were also more likely to incur higher implementation costs. The most significant implementation costs were related to additional personnel, IT, new process and controls, and audit costs.

Stakeholders noted that certain costs persisted beyond the transition period. The primary area raised by stakeholders regarding ongoing costs related to updates to variable consideration estimates each reporting period. They also acknowledged that, in some cases, certain ongoing costs, such as costs to analyze emerging and complex arrangements and to establish related controls, are not solely attributable to the revenue standard but are a result of business growth and innovation. Some stakeholders observed ongoing implementation costs to track information manually as a result of inadequate IT systems; however, some participants anticipated that the evolution of technology could help with compliance and reduce costs in the future.

Overall, the staff believes that sufficient evidence has been received to indicate that the benefits and costs of the revenue standard are consistent with what the Board considered and stakeholders expected and to conclude that the benefits of the revenue standard justifies its costs.

Implementation Challenges Identified

The staff observes that revenue recognition has historically been an area of financial reporting that is highly scrutinized by stakeholders, including investors, auditors, and regulators, because of the importance of revenue metrics. While many expected benefits were identified, the new revenue guidance was not expected to eliminate all challenges or judgments in its application. Rather, part of the objective was to provide a more consistent and coherent framework for applying the guidance to revenue transactions.

Throughout the Revenue PIR process, the staff identified areas within the new revenue standard that were considered challenging to apply by stakeholders. The challenging areas identified were as follows:

- Licensing
- Identification of performance obligations
- Standalone selling price
- Constraint on variable consideration
- Sales-based or usage-based royalties
- Principal versus agent
- Consideration payable to a customer
- Incremental costs of obtaining a contract
- Short-cycle manufacturing
- Disclosures.

During Stage 2 of the Revenue PIR process, the Board directed the staff to perform research on these areas identified by stakeholders. The staff conducted stakeholder outreach, including holding individual stakeholder meetings and a public roundtable, to better understand the nature and drivers of these challenges. The staff also reviewed and analyzed annual reports, third-party reports on SEC comment letter trends and restatements, and other relevant publications.

As part of the Revenue PIR process, the staff considered whether the standard is operational. During the staff's outreach, preparers, practitioners, and other stakeholders asserted that, overall, Topic 606 is understandable, can be applied as intended, and enables information about an entity's revenues to be reported reliably, with the key implementation support provided by the Board after issuance, including targeted improvements and implementation Q&As. Although certain areas within the new revenue standard were highlighted as challenging by some stakeholders, the staff's research indicated that those challenges were not the result of inherent limitations of the guidance. Rather, the challenges generally resulted from the following factors:

- Some areas of the new revenue standard require the application of significant judgment or estimation by management. When judgment or estimation is required, additional time and resources may be needed to apply the standard and audit the results. Additionally, because of the subjective nature of judgments and estimates, conclusions that are reached by an entity may be different than those reached by other entities that appear to be similar.
- Many of the implementation challenges were the result of fundamental changes to the revenue recognition guidance from the previous guidance in Topic 605. The staff anticipates that those challenges will become less significant on a recurring basis as entities continue to apply the guidance in the new revenue standard.
- Some of the challenges discussed above are driven by emerging business models with complex and evolving transactions (including principal versus agent considerations, licensing transactions, and determining performance obligations). Those areas also were challenging under the previous revenue recognition guidance, but they needed to be reevaluated and concluded upon under the new revenue standard.

The staff also considered whether any significant unexpected changes to financial reporting or operating practices resulted from the application of Topic 606. The new revenue standard replaced the previous broad revenue recognition concepts and industry-specific revenue recognition guidance in Topic 605 (which was inconsistent among industries) with a robust and comprehensive framework that can be applied to all revenue contracts with customers. Based on the research and outreach performed, the staff did not identify any significant changes in financial reporting or operating practices other than those that were expected by the Board as a result of the fundamental differences between Topic 606 and Topic 605.

In addition, the staff considered whether any significant unanticipated consequences resulted from the implementation of Topic 606. Based on the research and outreach performed during the Revenue PIR process, as well as the academic research that is further discussed below, the staff did not identify any significant unanticipated consequences resulting from the application of Topic 606.

Broadly, stakeholders' feedback received during the Revenue PIR process indicated that no significant changes are needed to the underlying model in the revenue standard to address these areas. However, some stakeholders indicated that additional implementation guidance on certain areas (for example, principal versus agent considerations) may be beneficial to assist stakeholders with the application of the guidance, particularly for complex or evolving business models.

The staff has included a summary of each of the challenging areas identified by stakeholders below.

Licensing

For a license that grants a right to use intellectual property (IP), Topic 606 requires revenue recognition at the point in time when the customer controls the license and can use and benefit from the license. Therefore, the revenue for that type of license is recognized "up front" when the customer controls and can use and benefit from the license, instead of over time as the customer uses the license. When a contract provides a customer with a right-to-use license and other services, Topic 606 requires that an entity assess whether the license and the services are distinct individually and in the context of the contract.

Stakeholders observed that the assessment to determine whether multiple performance obligations are distinct may be complex and require management's judgment, particularly when an arrangement involves emerging technologies that are continuously evolving (for example, offerings that include both an on-premises software license and access to cloud-based services, which are commonly referred to as hybrid transactions).

The staff noted that the guidance on whether performance obligations are distinct provides an accounting framework that stakeholders can apply and yet the nature of hybrid transactions requires significant judgment, which may lead to diversity in reaching conclusions about the number of performance obligations in a contract. The primary judgment involved in those transactions is evaluating the level of interdependence and interrelationship between the software license and the cloud service promised in the contract. A complete understanding of the transaction, including intended utility and marketing or sales offerings, is needed to reach a reasonable conclusion about the accounting for those arrangements, which inherently requires management's judgment. Furthermore, the staff observed that the guidance on determining performance obligations resulted in a significant change to the revenue recognition pattern for some entities in the software industry, which caused certain complexities for entities in that industry upon initial adoption of the new standard.

In addition to the feedback received about identifying performance obligations for licenses, the staff also received feedback about accounting for modifications of licensing arrangements as part of the Revenue PIR process (previously discussed in EITF Issue No. 19-B, "Revenue Recognition—Contract Modifications of Licenses of Intellectual Property"). The staff's research indicated that those modification transactions were challenging in the early stages of the adoption of Topic 606, but practice has since been able to coalesce around acceptable applications of the guidance. The staff also noted that the frequency and number of questions related to those transactions have decreased over time.

Identification of Performance Obligations

The new revenue standard requires that an entity assess the nature of promised goods or services to a customer to determine whether those goods or services represent a single performance obligation or multiple performance obligations in the revenue arrangement. That is, the entity must assess whether the goods or services are distinct individually or distinct in the context of the contract.

Although the term *performance obligation* is a new term in Topic 606, the notion of a performance obligation is similar to a deliverable, component, or element of a contract in previous revenue guidance for certain particular industries or transactions. As such, the Board observed in the basis for conclusions in Update 2014-09 that the guidance on identifying performance obligations in the new revenue standard may not result in significant changes for many entities.

Some stakeholders highlighted that the guidance on identifying performance obligations can be a challenging area when assessing the nature of a promise and whether or not goods or services are distinct. The staff observed that the challenges in this area primarily result from the reliance on management's judgment when applying the guidance and differing stakeholder views on the nature of a promise within the contract.

Standalone Selling Price

Topic 606 generally requires that an entity allocate the transaction price to all performance obligations in an arrangement in proportion to the standalone selling prices of the goods or services underlying each performance obligation at contract inception. The standard requires that an entity estimate the standalone selling price of a good or service if it is not directly observable.

Some stakeholders indicated that the guidance on determining standalone selling price can be challenging to apply in certain circumstances. Furthermore, some investors noted that it can be difficult to understand how standalone selling price is determined and observed that there are a variety of estimation methods.

The staff observed that the allocation principle in the new revenue standard is broadly consistent with the previous revenue guidance. However, the new revenue standard often results in the separation of additional performance obligations when compared with the previous revenue guidance, resulting in additional complexity for some entities, especially in the software industry, that are required to apply the allocation principle on a more frequent basis under the new standard.

Constraint on Variable Consideration

Under the new revenue standard, an entity is required to estimate variable consideration when determining the transaction price. In addition, the standard requires that an entity include in the transaction price some or all of an amount of estimated variable consideration but only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

The estimation of variable consideration is a fundamental change in Topic 606 from the previous revenue guidance. Previous guidance included a cap on recognizing contingent revenue. That cap generally resulted in variable or contingent revenue not being recognized until the contingency was resolved and the fees were fixed and determinable.

Some stakeholders indicated that it can be challenging to conclude the extent to which variable consideration should be constrained, particularly for transactions with a long duration and high uncertainty.

The staff thinks that the underlying cause of the challenges in this area is that it is a significant change from prior practice and the application of the constraint guidance requires both estimation and management's judgment. Certain arrangements may have transaction prices that are inherently difficult to estimate, especially when the estimate is affected by data that could be affected by external factors or the estimate is over a long period of time. In addition, significant judgment may be needed to assess the probability and significance of the potential reversal.

Sales-Based or Usage-Based Royalties

When a license of IP is subject to a sales-based or usage-based royalty, the guidance in Topic 606 does not require that an entity estimate the expected future royalty payments to be included in the transaction price.

Stakeholders observed that the expected benefit of the sales-based or usage-based royalty exception may be lessened if a contract includes two performance obligations and one of those performance obligations is a license of IP subject to the sales-based or usage-based royalty exception. In this situation, an entity would be required to perform an estimation of future consideration to determine how the transaction price should be allocated to the non-license component in the contract.

The staff observes that the challenges in this area result from the significant judgment that may be required to estimate sales-based royalties in arrangements that contain both a license and non-license component. The staff notes that in the basis for conclusions in Update 2014-09, the Board initially considered whether to expand the scope of the sales-based or usage-based royalties exception beyond licensing arrangements but decided not to expand its scope because it would add additional complexities or prevent entities from recognizing revenue when the goods and services are transferred in certain cases.

Principal versus Agent

When another party is involved in providing goods or services to a customer, the new revenue standard requires that an entity determine whether the nature of its promise is to provide the specified good or service itself (that is, whether it is a principal and, therefore, should recognize revenue in the gross amount of consideration to which it expects to be entitled) or to arrange for that good or service to be provided by the other party (that is, whether it is an agent and therefore should recognize revenue in the amount of any fee or commission to which it expects to be entitled). To determine if an entity is a principal or an agent, Topic 606 requires that an entity assess whether it controls the specified good or service before it is transferred to the customer. The standard includes guidance on how the control principle applies to certain types of arrangements and a list of control indicators to assist an entity with its evaluation.

The previous revenue guidance also required a principal versus agent assessment and included a list of indicators that were used to evaluate whether an entity was the principal or agent for a given transaction. However, the indicators in the previous revenue guidance focused on risks and rewards rather than control and, accordingly, some entities may have changed their revenue presentation upon the adoption of the new revenue standard. Regardless of whether a change occurred, all entities had to reassess their conclusions and, in some cases, discuss their assessments with their auditors and regulators.

Stakeholders noted that the principal versus agent guidance can be complex and is often challenging to apply because the guidance requires significant judgment. Given the complex nature of the guidance, auditors and regulators also observed that this area remains a frequent area of consultation. Furthermore, investors noted that it can be difficult to understand the judgments applied by seemingly similar entities, especially when those entities arrive at different principal versus agent conclusions.

The staff observes that the challenges associated with the principal versus agent assessment are often the result of significant judgment that is required in performing that assessment, which also was challenging under the previous revenue guidance. The increased complexities of the emerging business models and transactions as a result of the speed and development of new technologies and the number of parties involved in arrangements resulted in continued challenges for stakeholders to analyze, understand, and account for the individual facts and circumstances of those arrangements in a timely manner.

Consideration Payable to a Customer

The new revenue standard includes a framework for evaluating whether payments made to customers should be recognized as a reduction of revenue or as an expense and is largely unchanged from the previous revenue guidance. The framework also addresses payments made by an entity to other parties that purchase the entity's goods or services from the entity's customer (for example, payments made to an end consumer in a distribution chain). However, questions were raised about how to account for arrangements that involve more than three parties and include payments made to other parties that are not in the distribution chain.

Some stakeholders stated that in those types of arrangements it can be difficult to determine whether the payments should be accounted for as consideration payable (or as a marketing expense), especially where no contractual linkage exists between the entity and the party receiving the payment. In addition, some stakeholders also observed that it can be challenging to identify an entity's customer in those types of arrangements.

The staff observes that judgment is required for an entity to consider the specific facts and circumstances of its revenue arrangement and determine who is its customer and how to present the consideration payment, particularly in emerging business models that may include multiple parties to the revenue arrangement.

Incremental Cost of Obtaining a Contract

Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers, requires that an entity capitalize incremental costs to obtain a contract with a customer if the entity expects to recover those costs. In addition, the guidance requires that capitalized costs be amortized on a systematic basis that is consistent with the transfer of goods or services to which the asset relates to the customer. The guidance also includes a practical expedient that allows an entity to expense incremental costs to obtain a contract if the amortization period for those costs, assuming they were capitalized, would be one year or less.

Stakeholders stated that applying the guidance on incremental costs of obtaining a contract, and the related amortization guidance, can be challenging. Specifically, some stakeholders noted that it can be difficult to identify which costs should be capitalized and to determine the appropriate amortization period for those capitalized costs.

The staff observes that the previous guidance included an accounting policy election that allowed an entity to recognize an asset for acquisition costs or to recognize those costs as an expense (with disclosure of its accounting policy election). As such, the staff thinks that the challenges in this area are partially because of the change from the previous guidance. In addition, the staff thinks that the challenges related to determining the appropriate amortization period result from the judgment that is required to determine a systematic basis of amortization that aligns with the transfer of goods or services to the customer. For example, in determining the amortization period, the guidance requires that an entity consider whether commissions are paid on renewal contracts and, if so, whether those payments are commensurate with the commission on the initial contract.

Short-Cycle Manufacturing

Under Topic 606, entities making customer-specific products, including short-cycle manufacturers, generally conclude that those products do not have an alternative use and that an entity has an enforceable right to payment for goods manufactured to date; therefore, revenue recognition should occur over time as the customer obtains control of the product. This is different from the previous revenue guidance under which short-cycle manufacturers typically recognized revenue when the products were shipped.

Stakeholders stated that for short-cycle manufacturing entities, the guidance on transfer of control (that is, determining whether a performance obligation is satisfied over time or at a point in time) can be difficult to apply, especially determining whether an entity has a right to payment for work in process. In addition, some stakeholders in this industry asserted that the accounting is inconsistent with the economics of the transactions. The staff observed that the guidance on transfer of control and satisfying performance obligations over time has been widely applied by entities in other industries. Furthermore, the staff observed that one of the objectives of Topic 606 was to eliminate industry-specific guidance, which results in short-cycle manufacturers applying the same model as other types of entities that produce customized goods, such as construction contractors.

Disclosures

The new revenue standard requires disclosures about an entity's contracts with customers, significant judgments made when applying the standard, and any practical expedients or accounting policy elections applied by the entity. The disclosures required by the new standard are more comprehensive and detailed than the disclosures required under the previous revenue guidance, which were considered inadequate and lacking in cohesion with the disclosure of other items in the financial statements.

Stakeholders stated that the disclosures required by Topic 606, particularly for public entities, generally provide additional decision-useful, consistent, and comparable information across entities. However, some investors suggested that additional disclosures may be beneficial, such as disclosures about disaggregated revenue recognized at a point in time and over time for entities in the software industry.

Based on research, the staff noted that the extent of disaggregated revenue information disclosed by entities has increased when compared with the disclosures under previous revenue guidance.

The staff also observed that many entities in the software industry either directly disclose disaggregated information on the timing of revenue recognition or disclose relevant information to help investors derive the over time and point in time amounts.

Academic Research

In November 2022, the FASB, the IASB, and the Accounting Review (a publication of the American Accounting Association) jointly held the Accounting for an Ever-Changing World conference. At the conference, academics presented research about whether Topic 606 has accomplished its stated objective, provided investors with benefits, resulted in unexpected implementation or continuing application costs, or given rise to unexpected economic consequences. Research papers related to the new revenue standard were discussed at the conference, covering the decision usefulness of revenue disaggregation, the effects of retrospective adoption on a firm's information environment, principal versus agent considerations, and the effect of revenue recognition on the construction industry.

As part of the Revenue PIR process, following the conference, the staff reviewed 24 academic studies[4] performed between 2019 and 2024 to understand the implications of Topic 606 in the capital markets. Those studies covered various aspects of the revenue standard (such as revenue recognition timing, principal versus agent considerations, revenue disclosures, transition approach, and convergence with IFRS Accounting Standards) and analyzed the effect of the revenue standard on the quality and decision usefulness of financial information for investors and the differential effect on certain industries and entities.

Generally, the academic studies suggested that Topic 606 improves the comparability of information across entities. However, there was some evidence that for entities subject to industry-specific revenue guidance before Topic 606, the comparability of information among entities within the same industry decreased following the adoption of Topic 606. In addition, one study provides evidence that Topic 606 improves the comparability of revenue among entities using GAAP and IFRS Accounting Standards. The academic studies that examined how Topic 606 affects the accuracy of investors' forecasts found mixed results depending on the research design and the periods examined.

In summary, the academic studies generally support a conclusion that Topic 606 has achieved its objectives, generates decision-useful financial information, and results in minimal negative and some positive unanticipated financial reporting or operating changes or other consequences. As part of ongoing standard setting, the staff will continue to monitor academic research in this area.

[4]The studies were collected from papers submitted to the conference, cited within the conference submissions, submitted directly to the FASB, or identified in other academic sources.

Stage 3: Summary of Research and Reporting

Overview

The staff prepared this report after completing Stages 1 and 2 of the Revenue PIR process. It summarizes the activities conducted, information gathered, and actions taken under the Revenue PIR process. The Board discussed this report, including the PIR findings and the Board's responses, at its October 2, 2024 meeting.

Summary of Key Findings

In 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* under a joint project started in 2002 with the IASB. Topic 606 was effective for public entities in calendar year 2018 and for other entities in calendar year 2020.

The converged revenue standard provides a consistent core principle (leveraging a single five-step model) for revenue recognition across entities and allows more judgment for entities to apply the revenue standard to specific facts and circumstances. However, it fundamentally changed how entities view and report their revenue transactions, resulting in a significant undertaking from stakeholders to revisit and reevaluate their business activities and related processes and controls. The new revenue standard resulted in a significant learning curve for stakeholders to understand the guidance (which resulted in questions raised on various aspects of Topic 606 during the implementation process) and necessitated significant efforts for stakeholders to apply the guidance, even though most preparers noted that their financial statements were not materially affected by the new revenue standard. The wide variety and complexity of transactions and the degree of judgment involved in applying the new revenue standard also made implementation challenging.

Accordingly, the Board and the staff put a significant amount of time and effort, primarily under Stage 1 of the Revenue PIR process, to closely monitor the progress of implementation and provide timely support. Shortly after the issuance of the revenue standard in 2014, the Board established the TRG to proactively identify and address interpretive issues during the implementation period. In addition, the staff continuously responded to implementation questions through the technical inquiry process. Several Accounting Standards Updates with clarifications and targeted improvements were issued during this period to ease the application of Topic 606. In addition, the effective date was deferred twice to allow sufficient time for stakeholders to be prepared for the adoption (twice for nonpublic entities and once for public entities). Those activities collectively improved the understandability and operationality of the new revenue standard and supported its high-quality implementation.

Despite the extensive efforts and significant costs to implement or support implementing the revenue standard, stakeholders recognized the benefits of Topic 606. Investors noted that they are receiving more transparent, comparable, and relevant information to help them better understand and analyze an entity's revenue-related activities and performance. Some preparers noted that the implementation of Topic 606 improved their understanding of their revenue contracts and related business activities and strengthened their internal controls around revenue recognition processes.

Overall, stakeholders welcomed Topic 606 and agreed that the benefits of the revenue standard outweigh its costs, especially from a long-term perspective.

Conclusions

Based on the activities conducted under the Revenue PIR process, the staff reached the following conclusions on Topic 606 and the standard-setting process:

1. Topic 606 accomplishes its stated purpose (**PIR Objective 1**).
   a. It resolved the primary issues underlying its need by removing inconsistencies and weaknesses in revenue requirements, providing a more robust framework for addressing revenue issues, and improving comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets (**PIR Objective 1(a)**).
   b. It produces decision-useful information reported to and used by investors through a consistent revenue model and improved disclosure requirements (**PIR Objective 1(b)**).
   c. It provides understandable and operational guidance that is applied by stakeholders as intended with key implementation support by the Board. It simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer and enables information to be reported reliably (**PIR Objective 1(c)**).
   d. No significant unexpected changes to financial reporting or operating practices from applying the revenue standard were identified. Although the revenue standard resulted in unexpected changes to financial reporting or operating practices for certain transactions or industries, those changes were identified, discussed, and evaluated in a timely manner during the Revenue PIR process. Those issues were effectively managed through implementation support from the Board and the staff and from third parties (such as other standard setters and industry groups) and, generally, are not considered significant in terms of their pervasiveness and ongoing effect. (**PIR Objective 1(d)**).
   e. No significant unanticipated consequences resulting from applying the revenue standard have been identified (**PIR Objective 1(e)**).
2. The benefits of Topic 606 justify its implementation and ongoing compliance costs (**PIR Objective 2**).
   a. The nature of implementation and ongoing compliance costs associated with Topic 606 were consistent with FASB's expectations as documented in the basis for conclusions in Update 2014-09. Overall, the ongoing compliance costs are not significant (**PIR Objective 2(a)**).
   b. The expected benefits have been achieved (**PIR Objective 2(b)**).
3. The Revenue PIR process provided timely feedback to improve the standard-setting process (**PIR Objective 3**).
   a. The standard-setting process was improved or enhanced, in response to the feedback, in the areas of setting effective dates for accounting standards, the timing of establishing a TRG, considering the interaction with other GAAP guidance (including clarifying the scope of the revenue standard compared with the scope of other guidance and clarifying how transactions are accounted for in a business combinations), and acknowledging the added complexity and time associated with pursuing a globally converged standard with another standard setter. The Board also recognized that changing accounting standards can result in significant costs, even when outcomes were not changed.

What's Next

Throughout the Revenue PIR process, the staff has provided periodic updates to the Board on stakeholders' feedback and the PIR activities. Overall, stakeholders' feedback and the staff's research have indicated that the revenue standard provides investors with decision-useful information and generally is understandable and operational. Although certain areas within the revenue standard were highlighted as challenging, the implementation challenges generally related to fundamental changes in the recognition model from the previous revenue guidance, the application of significant judgment or estimation by management required by the new revenue standard, and the complexity of emerging business models and evolving transactions.

Based on the Revenue PIR process, no matters have been identified that warrant the Board's immediate standard-setting actions. The staff will:

- Continue to support the application of Topic 606 primarily through the Technical Inquiry Service
- Assess any need for targeted improvements to Topic 606 arising from the next Agenda Consultation or future agenda requests
- As part of the general standard-setting process, monitor for emerging practice issues or application issues related to the revenue standard that should be considered by the Board on a timely basis.

In addition, the staff and the Board will continue to incorporate the feedback obtained from the Revenue PIR process to improve future standard-setting activities.

Accounting Standards Updates Issued under Revenue PIR Process

Accounting Standards Updates: Clarifications and Targeted Improvements

2016

2016-08 | Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)

2016-10 | Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing

2016-12 | Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.

2016-20 | Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers

2017

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

2018

2018-08 | Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

2018-18 | Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606

2021

2021-02 | Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient

2021-08 | Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers

Accounting Standards Updates: Effective Dates Deferral

2015

2015-14 | Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date

2020

2020-05 | Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities