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Summary of the March Meeting of the Emerging Issues Task Force

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This *EITF Snapshot* summarizes the March 16, 2017, meeting of the Emerging Issues Task Force (EITF or “Task Force”). Initial Task Force consensuses (“consensuses-for-exposure”) are exposed for public comment upon ratification by the Financial Accounting Standards Board (FASB). After the comment period, the Task Force considers comments received and redeliberates the issues at a scheduled meeting to reach a final consensus. Those final consensuses are then provided to the FASB for final ratification and, ultimately, issuance as an Accounting Standards Update (ASU).

The FASB plans to consider the EITF’s March 2017 consensus for ratification at a meeting on March 29, 2017. After that meeting, the official EITF minutes, including the results of the FASB’s ratification process, will be posted to the [Deloitte Accounting Research Tool \(DART\)](#) and to the [FASB’s Web site](#) (note that the official EITF minutes may contain details that differ from those in this publication). EITF Issue Summaries (released before the meeting and used to frame the discussion) are also available on those sites.

Issue 16-C, “Determining the Customer of the Operation Services in a Service Concession Arrangement”

Status: Final consensus.

Affects: Entities that enter into service concession contracts with a public-sector entity to operate the public-sector entity’s infrastructure.

Background: Some government or public-sector entities (“grantors”) enter into contracts with private-sector entities (referred to herein as “operating entities”) to manage the operation of the infrastructure that is used to provide public services (the operating entity may also manage construction, maintenance, or both). Such contracts are referred to herein as “service concession contracts.” Airports, roads, bridges, and hospitals are common asset types that are subject to service concession contracts.

[ASU 2014-05](#)¹ (based on Issue 12-H²) states that operating entities are prohibited from accounting for service concession contracts as leases (i.e., leasing the infrastructure from the grantor) when the grantor:

- “[C]ontrols or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide them, and at what price.”
- “[C]ontrols, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.”

In such circumstances, operating entities should look to other ASC topics (e.g., ASC 605³) for guidance on accounting for service concession contracts. However, since the issuance of ASU 2014-05, questions have arisen regarding how the operating entity should recognize revenue with respect to various stages of these contracts, such as initial construction, ongoing operations, and periodic major maintenance.

In November 2016, the FASB issued a proposed ASU based on the consensus-for-exposure that the EITF reached at its September 2016 meeting. For a summary of this consensus-for-exposure, see Deloitte’s September 2016 [EITF Snapshot](#).

Summary: At this meeting, the Task Force discussed the comment letters received on the proposed ASU, reaffirming the following consensus-for-exposure:

- When applying either ASC 605 or ASC 606, an operating entity considers the grantor the operating entity’s customer.
- Major maintenance of the asset owned by the grantor, but performed by the operating entity, would be evaluated under the revenue model in ASC 605 or ASC 606.
- Other than required transition disclosures, which would be similar to those required in ASC 606, no additional disclosures were deemed necessary.

Effective Date and Transition: The Task Force reached a final consensus that the effective date will mirror that of [ASU 2014-09](#),⁴ which was deferred by [ASU 2015-14](#).⁵ Specifically:

- For public entities that have adopted ASU 2014-09 before the finalization of Issue 16-C or that will adopt ASU 2014-09 on its mandatory effective date, the guidance pertaining to the final consensus will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, it will be effective for annual periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019.
- Entities that adopt ASU 2014-09 early but after the finalization of Issue 16-C must adopt both standards at the same time.
- Entities that do not adopt ASU 2014-09 early will still be permitted to early adopt the guidance in Issue 16-C.

¹ FASB Accounting Standards Update No. 2014-05, *Service Concession Arrangements (Topic 853)* — a consensus of the FASB Emerging Issues Task Force.

² EITF Issue No. 12-H, “Accounting for Service Concession Arrangements.”

³ For titles of *FASB Accounting Standards Codification (ASC)* references, see Deloitte’s “[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#).”

⁴ FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*.

⁵ FASB Accounting Standards Update No. 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date*.

The transition method a reporting entity uses in adopting the guidance in the final consensus will need to be consistent with that used in adopting ASU 2014-09 (e.g., retrospective application or modified retrospective application) if the two standards are adopted at the same time. If the entity early adopts this issue before ASU 2014-09 or has already adopted ASU 2014-09 before the finalization of this issue, the entity may choose between retrospective application and modified retrospective application. In addition, an entity will use the same practical expedients as those it used in adopting ASU 2014-09. However, if an entity elects to adopt this guidance before adopting ASU 2014-09, it is not permitted to use the practical expedients for adopting ASC 606.

Next Steps: FASB ratification is expected at the Board's March 29, 2017, meeting, after which a final ASU will be issued.

Administrative Matters

At this meeting, the FASB staff discussed the status of its research project on how a customer should account for implementation, setup, and other up-front costs ("implementation costs") incurred in a cloud computing arrangement that is considered a service contract. The research project includes consideration of (1) whether an entity should expense or capitalize these costs; (2) whether and, if so, how the costs should be more explicitly defined in U.S. GAAP; and (3) the scope of the project if it is added to the FASB's or EITF's agenda. The staff indicated that it plans to discuss the results of its research with the Private Company Council at its April 4, 2017, meeting. After that meeting, the Board will decide whether to add a project on these costs to its (or the EITF's) technical agenda.

The next EITF decision-making meeting is tentatively scheduled for June 8, 2017.

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The purpose of this publication is to briefly describe matters discussed at the most recent meeting of the Emerging Issues Task Force. This summary was prepared by Deloitte's National Office. Although this summary of the discussions and conclusions reached is believed to be accurate, no representation can be made that it is complete or without error. Official meeting minutes are prepared by the Financial Accounting Standards Board staff and are available approximately three weeks after each meeting. The official meeting minutes sometimes contain additional information and comments; therefore, this meeting summary is not a substitute for reading the official minutes. In addition, tentative conclusions may be changed or modified at future meetings.

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