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FASB Proposes Guidance on Collaborative Arrangements

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On April 26, 2018, the FASB issued for public comment a [proposed Accounting Standards Update \(ASU\)](#)¹ that would amend ASC 808² to address uncertainties related to the interaction of that guidance with the FASB's new revenue standard (ASC 606³).

Comments on the proposed ASU are due by June 11, 2018.

Background

While ASC 808 defines collaborative arrangements and provides guidance on income statement presentation, classification, and disclosures related to such arrangements, it does not address recognition and measurement matters such as (1) how the appropriate unit of accounting is determined or (2) when the recognition criteria are met. Thus, even when a collaboration is within the scope of ASC 808, entities must look to other GAAP (possibly by analogy) to determine the appropriate recognition and measurement for the activities subject to the arrangement. In determining the accounting for these arrangements, many entities currently apply revenue recognition guidance by analogy.

Since issuance of the new revenue standard, stakeholders have asked about the standard's effects on the accounting for transactions between participants in a collaborative arrangement. They have observed that some entities currently apply revenue guidance to a

¹ FASB Proposed Accounting Standards Update, *Collaborative Arrangements (Topic 808): Targeted Improvements*.

² FASB Accounting Standards Codification Topic 808, *Collaborative Arrangements*.

³ FASB Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers*.

portion of or all elements of an arrangement, while others establish accounting policies for the recognition and measurement of transactions among participants — which may or may not be consistent with revenue guidance. In response to this diversity in practice and uncertainty about the accounting model that applies to these arrangements, the Board commenced a project in November 2016 to clarify when transactions between partners in a collaborative arrangement are within the scope of revenue guidance.

Key Provisions of the Proposed ASU

The proposed ASU would amend ASC 808 to:

- Add guidance on determining the unit of account. Such guidance would be “limited to when an entity is assessing the scope of [ASC] 606.”
- Clarify that in the context of the unit of account, ASC 606 should apply in its entirety to transactions within a collaborative arrangement when the counterparty is a customer.
- Clarify that when a transaction is not directly related to sales to third parties, presentation of the transaction as revenue would be precluded if the collaborative participant counterparty is not a customer.

In addition, the proposed ASU would (1) make conforming changes to the implementation guidance and illustrations in ASC 808 and (2) amend ASC 606 “to clarify that an entity’s collaborative partner is not precluded from being its customer.”



Connecting the Dots

As explained in paragraph BC21 of the proposed ASU, the Board considered providing recognition and measurement guidance for nonrevenue transactions between collaborative participants in part because “its decisions could result in more transactions that would need recognition and measurement guidance that does not exist in [ASC] 808.” Although the Board decided not to propose a nonrevenue accounting model for collaborative arrangements, it would continue to permit an entity to apply the revenue guidance in ASC 606 by analogy or as a policy election, and it would not require the entity to apply all the guidance in ASC 606 as long as the transaction is not presented as revenue.

Transition and Effective Date

Entities would be required to apply the final guidance retrospectively to the date of their initial application of ASC 606.

The FASB plans to determine an effective date for the final guidance after considering stakeholder feedback on the proposed ASU.

Questions for Respondents

The proposed ASU’s questions for respondents are reproduced below for reference.

Question 1: Would the amendments in this proposed Update clarify when a transaction between collaborative participants is within the scope of the revenue guidance in Topic 606? Would the proposed amendments reduce diversity in practice in this area? If not, please explain why.

Question 2: Is additional guidance necessary to determine whether a collaborative participant is a customer? If so, please provide suggestions.

Question 3: Are the proposed amendments on presentation in paragraph 808-10-45-3 operable? Would the proposed amendments reduce diversity in practice in this area?

Question 4: Would the proposed amendments on the unit of account clarify that the unit-of-account guidance in Topic 606 should be applied for determining if a transaction is within the scope of Topic 606? If not, please explain why.

Question 5: Should a reporting entity be required to provide additional recurring disclosures (that is, incremental disclosures to those required in Topic 808 and Topic 606) because of the proposed amendments? If so, what additional recurring disclosures should be required?

Question 6: Do you agree with the proposed transition requirements, including the retrospective application to the adoption date of Topic 606? If not, what transition method would be more appropriate and why?

Question 7: How much time is needed to implement the proposed amendments? Should early adoption be permitted?

Question 8: Should entities other than public business entities be provided with more time to implement the proposed amendments? If so, how much more time?

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