

## Divergence Around the "Converged" Revenue Standard

By Nicole Karp

In May 2014 – after years of discourse, debate, and deliberations – the FASB and IASB ("the Boards") issued a joint standard on revenue recognition (ASC 606 and IFRS 15). The release of this standard was hailed as a triumph of convergence between U.S. GAAP and IFRS. Or, at least, that was the hope.

By way of background, the Boards made a commitment in 2002 to make each governing body's financial reporting standards "fully compatible". Over the years, the concept of convergence evolved to mean that the standards, while not necessarily identical, would share the same principles.

While the release of the joint revenue recognition standard seemed to be a victory for the convergence cause, the IASB and FASB have already begun to diverge as a result of decisions made by the Joint Transition Resource Group ("TRG") - a body tasked with examining implementation issues. As a result of the TRG deliberations, the Boards have taken different approaches on some implementation questions. In particular:

The Joint Transition Resource Group for Revenue Recognition of the IASB and the FASB was created to keep the IASB and FASB informed on interpretive issues occurring during implementation of the converged revenue recognition standard and to assist in determining what action may be needed to resolve diversity in practice.

- The FASB wants to arguably change how companies would determine whether a license is accounted for over time or at a point in time. The IASB, on the other hand, would like to simply reinforce the principles around licenses already set out in the standard.
- The FASB plans to rearticulate the principle around when a performance obligation is distinct whereas the IASB does not think this is necessary.
- The FASB and the IASB tentatively have come to different conclusions on certain aspects of accounting for material rights.

After all of this hard work to converge, why are the Boards beginning to diverge?

### Different Environments

The U.S. is more litigious than other parts of the world. Many U.S. companies – the vast majority of which apply U.S. GAAP – are concerned about mitigating the risks of

shareholder lawsuits and regulator enforcement actions. Consequently, U.S. companies tend to prefer explicit rules that are easier to apply, versus principles that are subject to judgment and interpretation.

### **Different Stakeholders**

In many parts of the world, individual IFRS standards must be “endorsed” by government bodies before companies are permitted to use them. The endorsement process can take quite a bit of time and can sometimes be politically motivated. Hence, the IASB is not keen to make significant changes to IFRS 15 via amendments and risk delaying the endorsement processes across the globe. The FASB, whose rules are authoritative upon issuance, does not share a similar concern.

### **Old Issues Resurfacing**

Differences of opinion that were expressed during original deliberations may be resurfacing. For example, during the standard development process, most members of the IASB felt strongly that all licenses should be accounted for at a point in time. On the other hand, many members of the FASB Board felt that all licenses should be accounted for over a period of time. The final standard represented a compromise in the two positions by articulating that all licenses are not created equal. Therefore, it’s possible that the original difference of opinion around licenses was never fully resolved and is once again resurfacing during the course of the TRG process.

### **Final Thoughts**

While both Boards are still working towards that lofty goal of issuing a "single set" of high quality standards, the reality is that it’s challenging to promulgate identical standards when environments, stakeholders and philosophies differ. The hope is that areas of divergence are limited, and that the Boards’ substantial efforts in issuing the initial converged standard were not for naught.

As this process plays out, be sure to monitor the transition resource group issue summaries (which are public and available on the FASB and IASB websites) for all the latest updates.