

## Financial Reporting Center – Revenue Recognition

# Working Draft: Telecommunications Revenue Recognition Implementation Issue



### Issue #15-2– Identification of Separate Performance Obligations

**Expected Overall Level of Impact to Industry Accounting:**  
Significant

### Wording to be Included in the Revenue Recognition Guide:

#### Telecommunication Service Offering: Performance Obligations

1. FASB ASC 606-10-25-14 explains that a performance obligation is a promise to transfer to the customer either:
  - a.. A good or service (or a bundle of goods or services) that is distinct
  - b. A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (see paragraph 606-10-25-15).
  
2. FASB ASC 606-10-25-19 explains a good or service is distinct if both of the following criteria are met:
  - a. The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (that is, the good or service is capable of being distinct).
  - b. The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (that is, the promise to transfer the good or service is distinct within the context of the contract).
  
3. FASB ASC 606-10-25-21 states the following:
 

The objective when assessing whether an entity's promises to transfer goods or services to the customer are separately identifiable in accordance with paragraph 606-10-25-19(b) is to determine whether the nature of the entity's overall promise in the contract is to transfer each of those goods or services or whether the promise is to transfer a combined item or items to which the promised goods or services are inputs. Factors that indicate that two or more promises to transfer goods or services to a customer are not separately identifiable include, but are not limited to, the following:

  - a. The entity provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the entity is using the goods

or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element, or unit.

b. One or more of the goods or services significantly modifies or customizes, or is significantly modified or customized by, one or more of the other goods or services promised in the contract.

c. The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract.

4. Further, BC29 of FASB ASU 2016-10, Revenue From Contracts with Customers: Identifying Performance Obligations and Licensing, clarifies the following:

The Board intends to convey that an entity should evaluate whether the contract is to deliver (a) multiple goods or services or (b) a combined item or items that is comprised of the individual goods or services promised in the contract. That is, the analysis should evaluate whether the multiple promised goods or services in the contract are outputs or, instead, are inputs to a combined item (or items). The inputs to a combined item (or items) concept might be further explained, in many cases, as those in which an entity's promise to transfer the promised goods or services results in a combined item (or items) that is greater than (or substantively different from) the sum of those promised (component) goods and services.

5. Additionally BC33 of ASU 2016-10 also explains:

In addition to reframing the factors in the context of a bundle of goods or services, the Board also:

a. Revised the factor relating to a significant integration service in paragraph 606-10-25-21(a) to clarify that (1) the factor is not only applicable to circumstances that result in a single output and (2) a combined output may include more than one phase, element, or unit.

b. Decided to clarify that the evaluation of whether two or more promises in a contract are highly interrelated or highly interdependent in accordance with paragraph 606-10-25-21(c) considers both fulfillment and beneficial interdependence. An entity may be able to fulfill its promise to transfer each good or service in the contract independently of the other, but each good or service may significantly affect the other's utility (that is, its ability to provide benefit or value) to the customer. For example, in Example 10, Case C, or in Example 55, the entity's ability to transfer the initial license is not affected by its promise to transfer the updates, but the provision (or not) of the updates will significantly affect the utility of the licensed intellectual property to the customer such that the license and the updates are not separately identifiable. They are, in effect, inputs to the combined solution for which the customer contracted. Some stakeholders have confused the highly interrelated or highly interdependent notion with the "capable of being distinct" criterion in paragraph 606-10-25-19(a). The "capable of being distinct" criterion also considers the utility of the promised good or service, but merely establishes the baseline level of economic substance a good or service must have to be "capable of being distinct." Utility also is relevant in evaluating whether two or more promises in a contract are separately identifiable. This is because even if two or more goods or services are capable of being distinct because the customer can derive some measure of economic benefit from each one, the customer's ability to derive its intended benefit from the contract may depend on the entity transferring each of those goods or services.

6. The Boards observed that determining whether the entity's promise to transfer a good or service is separately identifiable requires judgment, taking into account all of the facts and circumstances. The Boards decided to assist entities in making that judgment by including the factors in paragraph FASB ASC 606-10-25-21.

*Whether bundled service lines within a multiple-line service plan are a single performance obligation*

7. Multi-line service plans typically include a base charge covering any number of lines up to a maximum, e.g.10 lines, as well as a small per device or "line" charge for each device used on the plan. The base charge is marketed as either for a bucket of minutes or a bucket of data which is shared by all lines on the plan. These plans typically include services in addition to the service covered by the base charge for all lines such as data (if the base charge is for voice), voice (if the base charge is for data) and text services.
8. FinREC believes that each individual service line within a multiple-line service plan is capable of being distinct, as the customer may benefit from the service on its own or together with other readily available resources. That

is, each individual service line can be used by the customer and sold by the entity for an amount that is greater than scrap value. The fact that an entity regularly sells individual service line plans on a standalone basis supports that a customer can benefit from the service on its own. As such, each individual service line satisfies the criteria in FASB ASC 606-10-25-19(a).

9. An entity should also assess whether each line is distinct in the context of the contract. As described in FASB ASC 606-10-25-21 the objective when assessing whether an entity's promise to transfer goods or services to the customer are separately identifiable is to determine whether the nature of the entity's overall promise in the contract is to transfer each of the goods or services or whether the promise is to transfer a combined item, to which promised goods or services are inputs. FASB ASC 606-10-25-21 provides three factors to consider when making this assessment but also states that factors that indicate promised goods and services are not separately identifiable are not limited to those listed. Therefore, other factors based on both the customer and vendor's perspective as to what is being purchased and sold may also need to be considered. FinREC believes determining the most appropriate composition of performance obligations, reflective of the nature and substance of the contract, requires judgment. An entity will need to assess both the facts and circumstances specific to the entity's contracts and their industry, whereby industry practice may imply in substance what the customer is contracting to purchase, as well as what the company believes they are selling (e.g., bundled service lines versus individual service lines). The goal is to recognize revenue on a basis that faithfully depicts the performance in transferring the promised goods and services to the customer.
10. Determining whether a multi-line service plan account is a single performance obligation or separate performance obligations for each line requires significant judgment and is highly dependent on the facts and circumstances of the contract with the customer. For example, when the multi-line service plan includes shared resources, such as a bucket of minutes or a bucket of data for which the customer controls which line to use the shared resources, the lines are highly interdependent because the services are shared across all the lines and the provider delivers the data or voice services on whichever line the customer chooses. If the service is not delivered on the line the customer chooses, the company would be failing to provide the service as purchased by the customer and would be considered to not have delivered on the promise to the customer.
11. Conversely, if a multi-line service plan does not include shared resources, the provider may determine that each line is separately identifiable. While theoretically separable, an entity may practically account for the multiple distinct lines as one performance obligation if the services have the same pattern of transfer to the customer, as noted in Basis of Conclusions paragraph BC116 of FASB ASU 2014-09.

*Whether the option to purchase additional lines within a multiple-line service plan reflects a material right to the customer on future purchases?*

12. As described in FASB ASC 606-10-55-41 through 55-45, customer options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, customer award credits (or points), contract renewal options, or other discounts on future goods or services. If, in a contract, an entity grants a customer the option to acquire additional goods or services, that option gives rise to a performance obligation in the contract only if the option provides a material right to the customer that it would not receive without entering into that contract (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of customer in that geographical area or market). If the option provides a material right to the customer, the customer in effect pays the entity in advance for future goods or services, and the entity recognizes revenue when those future goods or services are transferred or when the option expires.
13. If a three line plan is considered a single performance obligation and a four line plan is considered a different single performance obligation, the determination of whether a customer with a three line plan has a material right associated with a potential upgrade to a four line plan is dependent on if the price of the four line plan is different for existing three line plan customers than it is for a new customer (one not under any plan) signing up for a four line plan. If the price of the four line plan is the same for the existing customer and the new customer, then FinREC believes multiple-line service plan pricing reflects a marketing offer to subscribers, not a material right as explained in FASB ASC 606-10-55-43.

14. Telecommunications companies may have goods or services that are sold separately to customers in certain contracts, while those same goods or services are also combined or integrated to create a single service or deliverable in other contracts. The following example evaluates a Virtual Private Network (“VPN”) service that enables a customer to link locations and efficiently transmit voice, data and video over a highly secure network. The VPN solution is a combination of routers (equipment), port and access (services). Telecommunications companies also regularly sell ports, access and routers separately. The following example is meant to be illustrative, and the actual determination of whether services promised in a contract are distinct should be based on the facts and circumstances of any entity’s specific situation.

#### Example 1

15. A telecommunications company may offer VPN service based on the needs of its customers. For purposes of this example, assume the telecommunications company controls the equipment as part of a single described service in the contract. The contract describes the VPN service as a single service with the individual elements being described only to allow the customer to understand how the service is being built rather than indicating the customer is buying each element separately. In addition the contract includes a Service level Agreement (SLA) with service levels based on the combined output of the VPN service.
16. FASB ASC 606-10-25-19 provides two criteria that must be met in order for a good or service to be considered distinct. Because telecommunication companies often provide components of VPN service separately to customers, the criteria in FASB ASC 606-10-25-19a that the customer can benefit from the individual components on their own is met. Therefore, the criteria in FASB ASC 606-10-25-19b that requires an entity to consider whether a good or service is separately identifiable is the critical evaluation in whether a product or service is distinct. Companies cannot assume that a good or service that is sold separately should always be considered a distinct performance obligation. A company will need to consider all of the terms and conditions of the contract with the customer in order to determine which goods or services represent performance obligations that will need to be accounted for separately.
17. As noted above, the VPN solution is a combination of routers (equipment), port and access (services). As previously discussed, FASB ASC 606-10-25-21 includes three factors that indicate a good or service is not distinct which companies may consider in this evaluation.
18. The first of the three factors is evaluated as follows for the VPN service:
- a. An entity provides a significant service of integrating the goods and services for the customer.
    - i. In this example the service is described as one service similar to providing a “building” as opposed to providing the ports, access and routers separately which are the equivalent of the bricks, mortar and labor to build the building.
    - ii. In this example the service levels are measured for the single VPN service rather than separately for the ports, access and router promises.
    - iii. In this example all three components must work in unison or the VPN service will not be delivered as promised.
19. Because the first factors indicates the components of the VPN service are not separately identifiable, FinREC believes the VPN service is considered a single performance obligation within the context of the contract under FASB ASC 606-10-25-19b.
20. As another example, telecom companies often sell voice, text and data services separately as well as in a package. Because the services are sold separately, they are clearly capable of being distinct under FASB ASC 606-10-25-19a. The determination of whether the services should be accounted for as separate performance obligations is, therefore, dependent on the company’s evaluation of the services under FASB ASC 606-10-25-19b, as well as the factors under FASB ASC 606-10-25-21. This determination is highly dependent on the facts and circumstances of the individual contract and may be subject to significant judgment. FinREC believes that the same company may determine that the services are distinct in the context of one contract type offered by the company and not distinct in a different contract type offered by the same company. In those circumstances in which an entity determines that services are distinct in the context of a contract, an entity is not precluded from

accounting for concurrently delivered distinct services that have the same pattern of transfer as if they were a single performance obligation, as the outcome will likely be the same as accounting for the distinct services as separate performance obligations.

## Equipment as a distinct promise

21. The provisioning of telecommunications services often requires the use of customer premise equipment (CPE) within the customer's home or business. CPE consists of equipment located at a customer's premise that allows the customer to gain access to the services of telecom provider. CPE includes devices such as telephones, modems, routers, gateways and set-top boxes. Certain CPE, such as set-top boxes, can only be used in conjunction with the service provider's services. A set-top box is a cable, satellite, Internet Protocol, or other device whose primary function is to receive television signals from a specific source and deliver them to a consumer display and/or recording device, such as a television or DVR. Certain set-top boxes provide the ability to receive basic television and/or internet services, and other set-top boxes provide significantly enhanced features (e.g. in home networking, device sharing, modem capabilities and other interactive customer experiences).

*Whether installed equipment is the service provider's asset or whether control of the asset has been transferred to the customer*

22. In situations where an entity provides CPE to a customer, an entity should first evaluate whether the contract includes a lease component. That is, the entity should assess if control of the identified asset transfers to the customer for a specified period of time. If a lease component is identified, that component would be accounted for in accordance with FASB ASC 842, *Leases*, and any non-lease components would be accounted for in accordance with FASB ASC 606.

23. For components or contracts accounted for under FASB ASC 606, then an entity would have to determine if and when control transfers to the customer. In order to determine if control of the installed CPE has transferred to the customer, an entity should evaluate the following indicators provided in FASB ASC 606-10-25-30, among others:

a. Indicate customer controls CPE

- i. Does the CPE provide a probable future economic benefit to the customer;
- ii. Is the customer obliged to pay for the CPE upon transfer;
- iii. Does the customer have the risks and rewards of ownership of the CPE;

b. Indicate entity controls the CPE

- i. Does the entity retain legal ownership of the CPE;
- ii. Will customers enter into a contract acknowledging the entity as the CPE-owner and acknowledging their obligation to return their CPE if they terminate the contract;
- iii. Is the CPE clearly marked as being the property of the entity;
- iv. Can the entity substitute the CPE for other similar CPE that provide similar service, for any reason, provided it is economically feasible to do so;
- v. Should a customer fail to return the CPE, would the entity assess a non-return fee and pursue financial remedies available (e.g., charge to credit card on file for CPE cost or send the account to collections) to recover the cost of the CPE.

*Determination of CPE as a separate performance obligation when the CPE is in the scope of Topic 606*

24. As stated above, when control of CPE transfers to the customer, a telecom company must determine if the CPE provides a benefit to the customer on its own or together with other readily available resources (FASB ASC 606-10-25-19(a)). Additionally, under FASB ASC 606-10-25-19(b) the entity's promise to transfer the good to the customer must be separately identifiable from other promises in the contract. In situations where the customer obtains control of the CPE, the following analysis would be performed to determine if a separate performance obligation exists.

*Whether a customer is able to benefit from the CPE on its own or together with other readily available resources*

25. In order to obtain benefit from certain CPE, such as a set-top box, a customer typically must be able to obtain the related television, satellite or internet services from another party. It is currently uncommon for a set-top box to be useable by an alternative cable or satellite television provider in the provisioning of cable or satellite services. Basis of Conclusions paragraph BC97 in FASB ASU 2014-09 indicates there are situations for which an entity may not be able to conclude that the customer can benefit from a promised good or service on its own: “For example, if an entity transferred a machine to the customer but the machine is only capable of providing a benefit to the customer after an installation process that only the entity can provide, the machine would not be distinct.” Notwithstanding, FASB ASC 606-10-25-20 indicates that “A customer can benefit from a good or service in accordance with paragraph FASB ASC 606-10-25-19(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value, or otherwise held in a way that generates economic benefits.”
26. In situations whereby there is a secondary market and a customer can sell the set-top box for an amount sufficiently higher than scrap value, and the cable or satellite television provider will provision service to that new customer at a service rate commensurate with other customers, FinREC believes the customer is able to benefit from the set-top box on its own. Therefore, the set-top box is capable of being distinct, as it meets the criteria in FASB ASC 606-10-25-19a. The determination of whether a secondary market exists may require significant judgment. A company will need to support its conclusion that a secondary market exists such that a customer can benefit from the set-top box alone. While the set-top box is capable of being distinct, the criteria in FASB ASC 606-10-25-19b would also have to be met (that is, the set-top box is distinct within the context of the contract) in order to be accounted for as a performance obligation.
27. Contrary to the above situation, if no service provider will provision services to the customer using the “resold” or “black market” set-top box, then FinREC believes there is a strong likelihood that the customer does not have the ability to benefit from the set-top box separately based on the Board’s views in BC97 of FASB ASU 2014-09. Presumably, the resale value in such circumstances would be close to scrap value, if a market existed at all.

*Whether the CPE represent a promise to transfer the good to the customer separately from other promises*

28. In most contracts, FinREC believes that the CPE is a separate promise to provide the customer a good, as it is typically explicitly described in the customer contract and varying types and number of CPE with varying prices can be selected by the customer. The CPE is typically priced commensurate with its features (CPE with enhanced features will be priced higher than those without such features). Consideration under FASB ASC 606-10-25-21 is required to conclude on whether the CPE is a separate performance obligation from the ongoing services. Of the factors to be considered in this guidance, important to the assessment is whether or not the CPE is “highly dependent on, or highly interrelated with, other goods or service promised in the contract”. With certain CPE, such as set-top boxes, the services desired by the customer cannot be provided without a set-top box or other decoding CPE that must be obtained from the service provider, and the CPE provides no significant utility to the customer without the ongoing services. As the entity would be unable to fulfill its promise to transfer the services to the customer independently of the promise to provide the related CPE, there is a high degree of dependency and interrelation between the CPE and the ongoing services. However, this dependency may be limited if the television customers have the ability to acquire the same services from the service provider if they purchased a set-top box or other CPE separately in the secondary market. In cases where a secondary market exists because the entity will provision services to previously acquired CPE, the CPE and ongoing services may be considered separate promises within the contract, consistent with the indicators as set forth in FASB ASC 606-10-25-21, because certain customers will purchase CPE from the provider and others will purchase CPE from a secondary market. In other words, FinREC believes the entity may conclude in these cases that the ongoing services are not highly dependent on the provision of CPE from the entity if the customer could also acquire the CPE from other third-parties without impacting the ongoing services.

## **Promotions and Giveaways**

*Whether promotional giveaways, such as providing a customer a free phone charger or other accessory with the purchase of a device, which a company offers to a customer to incentivize the customer to enter into an arrangement for telecommunications services are considered to be performance obligations*

29. FASB ASC 606-10-25-16A states that: “An entity is not required to identify promised goods or services that are immaterial in the context of the contract. An entity shall evaluate whether optional goods or services (that is, those subject to a customer option to acquire additional goods or services) provide the customer with a material right in accordance with paragraphs FASB ASC 606-10-55-42 through 55-43.”

30. The Board explained the materiality assessment in BC10 and BC12 of the ASU 2016-10, Revenue From Contracts with Customers: Identifying Performance Obligations and Licensing, as follows:

The Board observes that it did not intend to imply that each and every activity performed in satisfying a contract must be a promised good or service for purposes of applying Topic 606. In issuing Update 2014-09, the Board had previously decided to exclude an exemption for inconsequential or perfunctory promises because it considered that notion to be similar to immateriality. Therefore, including that notion in the performance obligations guidance could have been viewed as duplicating the materiality concepts in other GAAP.

The Board decided that an entity would be required to consider whether a promised good or service is material only at the contract level because it would be unduly burdensome to require an entity to aggregate and determine the effect on its financial statements of those items or activities determined to be immaterial at the contract level. This notion of determining material promised goods or services at the contract level also is used in Topic 606 for significant financing components and customer options for additional goods or services. As it is used in paragraph 606-10-25-16A, the term immaterial refers to the general notion of materiality. That is, an entity would consider the relative significance or importance of a particular promised good or service in the contract to the arrangement as a whole. In applying this notion, an entity would consider both the quantitative and the qualitative nature of the promised goods or services in the contract.

31. As such an entity is not required to identify goods or services promised to the customer that are immaterial in the context of the contract. More than one immaterial item in a single contract should be evaluated together with other immaterial items in that single contract to determine whether separate identification of performance obligations is required. An entity is not required to accumulate goods or services assessed as immaterial to an individual contract and assess their significance together with other customer contracts (that is, at an aggregated level).

32. Many promotional giveaways, such as a “free” mp3 player or a “free” tablet, that were accounted for as subscriber acquisition costs or other contract costs under previous GAAP may meet ASC Topic 606’s definition of a performance obligation if determined not to be immaterial to the contract, even if provided at no charge to the customer. In determining the appropriate accounting, companies will need to consider the specifics of the arrangements themselves and assess materiality based on qualitative as well as quantitative factors.

33. Optional goods or services should continue to be accounted for in accordance with paragraphs FASB ASC 606-10-55-41 through 55-45.

34. The following example is meant to be illustrative, and the actual determination related to promotional giveaways should be based on the facts and circumstances of any entity’s specific situation.

Example 2: Promotional giveaways directly related to other deliverables

35. Wireless customer purchases a wireless handset (identified as a separate performance obligation) and a 24 month service contract (identified as a separate performance obligation). Included with the wireless handset, the wireless provider offers the customer a separate free handset charger and handset case that are not otherwise typically included as part of the handset sale. Are the free charger and handset case performance obligations?

36. The additional free charger and handset case are incremental goods provided to the customer for purchasing the wireless handset. Many wireless providers will include these goods (or other similar items) related to the wireless

handset as promotional items. Although the charger and handset case are not the primary goods sold to the customer, they do represent a promise made by the wireless provider (either explicitly or implicitly) which the customer expects to receive (FASB ASC 606-10-25-16 and 25-17). Additionally, the customer is able to receive benefit from the charger and case and are available for sale or could be purchased from other vendors (FASB ASC 606-10-25-19a), and the goods are distinct from the other goods and services provided. That is, the handset charger and case do not significantly affect each other nor the phone or the service also provided in the contract (FASB ASC 606-10-25-21). Therefore, FinREC believes the wireless service provider generally would conclude that the charger and case provided to the customer are considered separate performance obligations, if not considered immaterial in the context of the contract.

Example 3: Promotional giveaways indirectly related to other deliverables

37. A customer signs-up for a triple-play package including basic television services, internet and phone services. The customer enters into a three year contract at a monthly price of \$95. As an incentive for purchasing a triple-play package the service provider gives the customer a free tablet.
38. Although the tablet is not the primary good sold to the customer, it does represent a promise made by the service provider (either explicitly or implicitly) which the customer expects to receive (FASB ASC 606-10-25-16 and 25-17). Additionally, the customer is able to receive benefit from the tablet with other readily available services and the tablet is distinct from the other services provided (FASB ASC 606-10-25-19). Therefore, FinREC believes a telecommunications provider should conclude that the tablet provided to the customer is a separate performance obligation, if not considered immaterial in the context of the contract.

*Whether a third-party gift card provided to a subscriber is a performance obligation of the arrangement*

39. The promise to provide a gift card may be considered a performance obligation regardless of whether an entity purchases the gift cards and provides them to a customer (FASB ASC 606-10-25-18(c)) or arranges for a third-party to provide the gift card to the customer (FASB ASC 606-10-25-18(f)). Important to this assessment is whether the gift card could be considered akin to cash consideration payable to the customer, in which case FinREC believes the gift card would be treated as a reduction to the transaction price in accordance with FASB ASC 606-10-32-25 rather than a distinct performance obligation. For example, a gift card that a customer uses to pay their telecom services bill could be considered to be consideration payable to a customer.

*Recording the costs of the gift card*

40. If a gift card is considered to be a separate performance obligation, the entity needs to determine if it is a principal or agent in the arrangement as well as the resulting impacts on standalone selling price, total transaction price and the allocation to performance obligations in the contract. Entities may also consider if the gift cards are an immaterial performance obligation under the contract.

**Promises accounted for outside of ASC 606**

41. Many wireless contracts that include Equipment (handset) Installment Purchase Plans (EIPs) contain some form of trade-in right for the purchased handset. In assessing these trade-in rights, companies should consider the requirements associated with the right. Typical trade-in rights in the telecommunications industry are granted at the inception of the EIP contract but also require the customer to enter into a subsequent contract in order to exercise the right.
42. If the trade-in right does not require the customer to enter into a subsequent contract, then the guidance associated with Repurchase Agreements in FASB ASC 606-10-55-66 through 55-78 should be considered. In that case, if a company has an obligation to repurchase a device at the customer's request, the company will need to consider the value of that right to the customer. In particular, FASB ASC 606-10-55-72 concludes that if the customer has a significant economic incentive to exercise a trade-in right, the company should account for the agreement as a lease in accordance with Topic 840 and 842. If the customer does not have a significant economic

incentive to exercise the trade-in right, then the company should consider accounting for the right as a right of return under FASB ASC 606-10-55-22 through 55-29.

43. If the trade-in right does require the customer to enter into a subsequent contract in order to be exercised, the vendor should first determine if the trade-in right represents or is associated with a material right. In typical EIP agreements, the customer is required to enter into a new contract at market prices in order to exercise the trade-in right. If the subsequent contract is offered at a price that would reflect the standalone selling price for the specified goods and services, FinREC believes there is no material right associated with the trade-in right.
44. If the trade-in right does require the customer to enter into a subsequent contract in order to be exercised and the trade-in right is not a material right, the vendor must then evaluate how to account for the right outside of ASC 606. Typically telecommunication companies treat such trade-in rights as guarantees that are generally accounted for under ASC 460 (Guarantees). Trade-in rights deemed guarantees should be separately assessed and initially recorded as a liability (credit) at fair value. The fair value of the guarantee is deducted from the total transaction price ("TTP"), because it is outside the scope of ASC 606 according to ASC 606-10-15-2 and 15-4.
45. The following example is meant to be illustrative, and the actual determination related to trade-in rights should be based on the facts and circumstances of any entity's specific situation.

Example 4: consider a trade-in right with the following terms:

46. The customer enters into an agreement to pay for a phone over 24 monthly installments
47. The customer has the right to trade-in the phone for a new handset after 18 months and be relieved of all remaining payment related to the original handset; the vendor estimates the forfeited payments will be \$150 and the value of the hand-set traded-in by the customer will be \$125.
48. In order to exercise the trade-in right, the customer must enter into a new 2 year handset and/or service arrangement with the company at the same prices available to any customer.
49. In this example the trade-in right is described in the initial contract, but it is actually related to and contingent on the second (subsequent) contract because if the customer does not enter into a subsequent contract, they never obtain the trade-in right so the repurchase guidance in FASB ASC 606 does not apply. The subsequent contract is at market so the trade-in contract does not include a material right. As a result, the trade-in right that requires the entity to stand-ready to perform is considered a guarantee that is dependent on the second contract, which is created at the time the initial contract is created. The guarantee obligation is recorded at fair value, and is deducted from the total transaction price ("TTP") because the guarantee right is accounted for outside the scope of FASB ASC 606.

Comments should be received by March 1, 2017, and sent by electronic mail to Desiré Carroll at [dcarroll@aicpa.org](mailto:dcarroll@aicpa.org), or you can send them by mail to Desiré Carroll, Accounting Standards, AICPA, 1211 Avenue of the Americas, NY 10036.