

SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 231, 241, and 271

[Release Nos. 33-10402; 34-81428; IC-32784]

Commission Guidance Regarding Revenue Recognition for Bill-and-Hold Arrangements

AGENCY: Securities and Exchange Commission.

ACTION: Interpretation.

SUMMARY: The Commission is publishing this interpretive release in order to bring existing guidance into conformity with Financial Accounting Standards Board Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. Upon adoption of Accounting Standards Codification Topic 606, registrants should no longer rely on the guidance in Securities Exchange Act Release No. 23507 and Accounting and Auditing Enforcement Release No. 108, *In the Matter of Stewart Parness*, which set forth the criteria to be met in order to recognize revenue when delivery has not occurred.

EFFECTIVE DATE: [insert date of publication in the Federal Register].

FOR FURTHER INFORMATION CONTACT: Kevin L. Vaughn, Senior Associate Chief Accountant, or Joseph R. Epstein, Professional Accounting Fellow, Office of the Chief Accountant, at (202) 551-5300, U.S. Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-6561. Inquiries about this interpretive release also can be directed to oca@sec.gov.

SUPPLEMENTARY INFORMATION:

I. Background

In 1986, in Securities Exchange Act Release No. 23507 and Accounting and Auditing Enforcement Release No. 108, *In the Matter of Stewart Parness* (“AAER 108”), the

Commission set forth criteria to be met in order to recognize revenue when delivery has not occurred (commonly referred to as “bill-and-hold”).¹ The Commission staff reiterated this guidance in Staff Accounting Bulletin (“SAB”) Topic 13, *Revenue Recognition*. SAB Topic 13 expressed the staff’s views on the basic principles of revenue recognition in then-existing generally accepted accounting principles and summarized in one location the existing guidance on revenue recognition to make that guidance more accessible to registrants and their auditors.

II. The Application of Generally Accepted Accounting Principles for Revenue Recognition Related to Bill-and-Hold Arrangements

The Commission historically has recognized pronouncements of the Financial Accounting Standards Board (“FASB”) as authoritative in the absence of any contrary determination by the Commission.² In Financial Reporting Release No. 70,³ the Commission stated its determination that the FASB and its parent organization, the Financial Accounting Foundation, satisfied the criteria in Section 19(b) of the Securities Act of 1933⁴ and, accordingly, FASB’s financial accounting and reporting standards are recognized as “generally accepted” for purposes of the federal securities laws. As a result, registrants are required to comply with those standards in preparing financial statements filed with the Commission, unless the Commission provides otherwise.⁵

The FASB has issued comprehensive revenue recognition guidance in Accounting Standards Codification (“ASC”) Topic 606, *Revenues from Contracts with Customers* (“ASC

¹ See *In the Matter of Stewart Parness*, AAER 108 (Aug. 5, 1986).

² Rule 4-01(a)(1) of Regulation S-X, 17 CFR 210.4-01(a)(1). See Accounting Series Release (“ASR”) No. 150 (Dec. 20, 1973) and ASR No. 4 (Apr. 25, 1938).

³ *Policy Statement: Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter*, Release Nos. 33-8221; 34-47743; IC-26028; FR-70 (Apr. 25, 2003) (“FR-70”); 68 FR 23333 (May 1, 2003).

⁴ 15 U.S.C 77s(b).

⁵ See FR-70; Rule 4-01(a)(1) of Regulation S-X, 17 CFR 210.4-01(a)(1).

Topic 606”), which supersedes most previous revenue recognition guidance issued by the FASB. Under ASC Topic 606, the general criteria for revenue recognition includes identifying the contract(s) with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service to a customer.⁶ A good or service is transferred when (or as) the customer obtains control of that good or service, and ASC Topic 606 sets forth indicators of when control has been transferred.⁷

ASC Topic 606 also provides specific guidance on contracts under which an entity bills a customer for a product but the entity retains physical possession of the product until it is transferred to the customer at a point in time in the future (i.e., a bill-and-hold arrangement).⁸ ASC Topic 606 acknowledges that, for some contracts, a customer may obtain control of a product even though that product remains in an entity’s physical possession.⁹ In order to recognize revenue in a bill-and-hold arrangement, ASC Topic 606 requires consideration of the indicators of when control has been transferred and sets forth additional criteria to be met.¹⁰

III. Updated Commission Guidance

In light of the FASB’s issuance of ASC Topic 606, upon a registrant’s adoption of ASC Topic 606, it should no longer refer to the guidance in AAER 108 related to recognizing revenue in a bill-and-hold arrangement because ASC Topic 606 provides specific guidance on recognizing revenue for those arrangements.

The updated Commission guidance set forth in this interpretation is applicable upon a

⁶ See ASC paragraph 606-10-05-04.

⁷ See ASC paragraphs 606-10-25-23 through 25-30.

⁸ See ASC paragraphs 606-10-55-81 through 55-84.

⁹ See ASC paragraph 606-10-55-82.

¹⁰ See ASC paragraph 606-10-55-83.

registrant's adoption of ASC Topic 606 and applies to all arrangements for which revenue is recognized in accordance with ASC Topic 606. Prior to a registrant's adoption of ASC Topic 606, the guidance in Securities Exchange Act Release No. 23507 and AAER 108 is still applicable to all arrangements for which revenue is recognized.

List of Subjects

17 CFR Parts 231, 241, and 271

Securities.

Amendments to the Code of Federal Regulations

For the reasons set out in the preamble, the Commission is amending Title 17, chapter II of the Code of Federal Regulations as set forth below:

PART 231 – INTERPRETATIVE RELEASES RELATING TO THE SECURITIES ACT OF 1933 AND GENERAL RULES AND REGULATIONS THEREUNDER

Part 231 is amended by adding Release No. 33-10402 and the release date of August 18, 2017 to the list of interpretive releases.

PART 241 – INTERPRETATIVE RELEASES RELATING TO THE SECURITIES EXCHANGE ACT OF 1934 AND GENERAL RULES AND REGULATIONS THEREUNDER

Part 241 is amended by adding Release No. 34-81428 and the release date of August 18, 2017 to the list of interpretive releases.

PART 271 – INTERPRETATIVE RELEASES RELATING TO THE INVESTMENT COMPANY ACT OF 1940 AND GENERAL RULES AND REGULATIONS THEREUNDER

Part 271 is amended by adding Release No. IC-32784 and the release date of August 18, 2017 to the list of interpretive releases.

By the Commission.

Dated: August 18, 2017

Jill M. Peterson
Assistant Secretary