**Wording to be Included in the EBP Guide:**

**Revenue from Contracts with Customers**

**2.156A** Per “Pending Content” in FASB ASC 606-10-10-1, FASB ASC 606, *Revenue from Contracts with Customers*, establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. “Pending Content” in FASB ASC 606-10-10-2 states that to meet the objectives of FASB ASC 606-10-10-1, an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. In accordance with “Pending Content” in FASB ASC 606-10-15-2, an entity shall apply the guidance in FASB ASC 606 to all contracts with customers except the following:

* Lease contracts within the scope of FASB ASC 842, *Leases*
* Contracts within the scope of FASB ASC 944, *Financial Services – Insurance*
* Financial Instruments and other contractual rights or obligations within the scope of the following:
  + FASB ASC 310, *Receivables*
  + FASB ASC 320, *Investments—Debt Securities*
  + FASB ASC 321, *Investments—Equity Securities*
  + FASB ASC 323, *Investments—Equity Method*
  + FASB ASC 325, *Investments—Other*
  + FASB ASC 405, *Liabilities*
  + FASB ASC 815, *Derivatives and Hedging*
  + FASB ASC 825, *Financial Instruments*
  + FASB ASC 860, *Transfers and Servicing*
* Guarantees (other than product or service warranties) within the scope of FASB ASC 460, *Guarantees*
* Nonmonetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

2.156B Per “Pending Content” in FASB ASC 606-10-15-3, an entity should apply the guidance in FASB ASC 606 to a contract only if the counterparty to the contract is a customer. A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration.

2.156C The cash inflows in employee benefit plans consist mainly of contributions. FinREC believes that employees (plan participants) and employers (plan sponsors), regardless of plan type, are not considered customers as defined by FASB ASC 606, as neither obtains goods or services that are an output of the entity’s ordinary activities in exchange for the contribution. Rather, employee and employer contributions to defined contribution retirement and defined benefit pension plans are similar to deposits held for the benefit of the participant, and the plan acts as the vehicle for plan investments. As such, FinREC believes that contributions are not considered revenue to a plan.

2.156D As noted in chapter 5, the investment manager may agree to share a portion of its investment management fees to help reduce the costs of administrative services provided to the plan that would have otherwise been charged directly to the plan sponsor, the plan, or participants. For instances in which this “revenue sharing” exists, FinREC believes that, as these agreements are intended to reduce the cost of administrative services, any amounts paid to the plan under such arrangements should be reported as a reduction of fees paid by the plan and, are not considered revenues under FASB ASC 606.

2.156E In multiemployer plans, a collective bargaining agreement is not considered a contract between the plan and the plan participants, but rather is a contract between the employer and the union. However, in some situations, multiemployer plans may enter into contracts with plan participants. For example, when plan participants receive goods or services from the plan (such as books or tuition) and the participant pays the plan for those goods or services. In such instances, the transaction is considered a contract with the customer (within the scope of FASB ASC 606) between the plan and the participant, to the extent that the criteria in FASB ASC 606-10-25-1 and 25-4 are met.

2.156F Readers are encouraged to consult FASB ASC 606 for further information on revenue from contracts with customers. Also see Exhibit A-4, “Employee Benefit Plan Income Streams - FASB ASC 606 Applicability,” for a summary of typical income (cash inflow) streams in an employee benefit plan, and FinREC’s determination of whether such income streams are within the scope of FASB ASC 606.

**Exhibit A-4**

**Employee Benefit Plan Income Streams - FASB ASC 606 Applicability**

The following table includes examples of typical income (cash inflow) streams in an employee benefit plan with considerations for FinREC’s determination of whether the income streams are subject to the guidance in FASB ASC 606:

| Income (cash inflow) | Subject to FASB ASC 606? | Considerations |
| --- | --- | --- |
| Investment income[[1]](#footnote-1): Dividends, interest, unrealized/realized gains/losses, securities lending income, interest income of notes receivable from participants | Outside scope of FASB ASC 606. | -- |
| Contributions[[2]](#footnote-2): Discretionary contributions (employee, rollover), nondiscretionary contributions (employer), reciprocal contributions (multiemployer plans) | Not subject to FASB ASC 606. | Employees and employers are not considered to be customers based on the guidance in FASB ASC 606, and therefore not in the scope of ASC 606.  The nature of the transaction for contributions is that the plan acts as a vehicle for the participants' investments.  Employee and employer contributions are not revenue to a plan. For defined contribution and defined benefit plans, both employee and employer contributions are similar to deposits held for the benefit of the participant.  In multiemployer plan reciprocal arrangements, the agreements are between the plans rather the plan and the plan participant, and the related contributions are not considered revenues under FASB ASC 606. |
| Other revenue: |  |  |
| Revenue sharing | Not subject to FASB ASC 606. | Not considered revenue to the plan, but rather a reduction of expenses paid by the plan. |
| Tuition | Potentially subject to FASB ASC 606. | If the plan only acts as a conduit for the tuition payments, then the tuition would not be considered revenue under FASB ASC 606.  However, if the plan provides the actual training, the tuition fee revenue should be considered revenue subject to FASB ASC 606, similar to educational institutions. |
| Grants | Not subject to FASB ASC 606.  (Covered under ASU 2018-08.) | Plans should follow the not-for-profit guidance on grant cash inflow. Grant cash inflows are not considered an exchange transaction, and therefore not subject to FASB ASC 606. |
| Books, supplies | Potentially subject to FASB ASC 606. | This revenue typically would be subject to FASB ASC 606 since participants that are buying the books and supplies are considered customers. |
| Admin/Recordkeeping income | Subject to FASB ASC 606. | Plans may provide recordkeeping services or own a separate legal entity that performs recordkeeping services for other plans. These cash inflows would be considered revenue under FASB ASC 606 because the bookkeeping services provided to customers are an output of the plan’s ordinary activities in exchange for consideration. |
| Lease income/rental income[[3]](#footnote-3)1 | Out of scope of FASB ASC 606.  (Covered by FASB ASC 840 or FASB ASC 842, once adopted) | **--** |
| Pharmacy rebates | Not subject to FASB ASC 606. | Pharmacy rebates received by health and welfare plans are offset against the related expenses incurred by the plan. Assuming no services are being provided by the plan, such rebates would not be considered revenue under FASB ASC 606. |

Comments should be received by July 12, 2021, and sent by electronic mail to Sue Hicks at sue.hicks@aicpa-cima.com, or you can send them by mail to AICPA, attention: Sue Hicks, 1455 Pennsylvania Avenue, NW, Washington, DC, 20004.

1. Per FASB ASC 606-10-15-2. [↑](#footnote-ref-1)
2. Subject to the guidance in FASB ASC 960, 962, and 965. [↑](#footnote-ref-2)
3. [↑](#footnote-ref-3)