# Staff paper

Agenda reference: 6F

**IASB® meeting**

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| Date | **April 2024** |
| Project | **Post-implementation Review of IFRS 15** |
| Topic | **Determining the transaction price—consideration payable to a customer and significant financing component** |
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## Purpose and structure

1. In March 2024, the IASB started discussing analysis of the feedback received in response to question 3 *Determining the transaction price* of Request for Information: *Post-implementation Review of IFRS 15* Revenue from Contracts with Customers (the RFI). The IASB made decisions on application matters raised in relation to:
   (a) variable consideration;
   (b) sales-based taxes; and
   (c) non-cash consideration.

2. The IASB also discussed the staff's preliminary analysis of the feedback related to consideration payable to a customer.

3. This paper provides:
   (a) staff analysis of application matters related to consideration payable to a customer updated for comments made by IASB members and Accounting Standards Advisory Forum (ASAF) members at their March 2024 meetings; and
   (b) staff analysis of application matters related to significant financing component.

4. At this meeting, the IASB will be asked to decide whether to take further action on those application matters and if so, how to prioritise those matters, applying its framework for responding to the matters identified in a post-implementation review (PIR).[1]

5. This paper provides:
   (a) summary of staff recommendations;
   (b) summary of the feedback and staff analysis of specific application matters.

## Summary of staff recommendations

6. Based on the analysis in this paper, the staff recommend the IASB:
   (a) classify as low priority the matters related to consideration payable to a customer; and
   (b) take no further action on the matters related to:
      (i) discount rate for contracts with a significant financing component; and
      (ii) other aspects of requirements on significant financing component included in Appendix A.

## Summary of the feedback and staff analysis of specific application matters

7. In this section the staff provide analysis of feedback related to:
   (a) consideration payable to a customer; and
   (b) significant financing component.

8. This section analyses whether to take action in response to these application matters based on whether the feedback provides evidence that:

[1] See Agenda Paper 6 for the framework.

(a) there are fundamental questions about the clarity and suitability of the requirements;

(b) the benefits to users of financial statements of the information arising from applying the requirements are significantly lower than expected (for example, there is significant diversity in application); or

(c) the costs of applying the requirements and auditing and enforcing their application are significantly greater than expected (or there is a significant market development since the requirements were issued for which it is costly to apply the requirements consistently).

### *Consideration payable to a customer*

#### *Recap of March 2024 IASB discussion*

9. At its March 2024 meeting, the IASB discussed the main matters raised by many respondents—mostly standard-setters, accounting bodies and accounting firms—in relation to accounting for consideration payable to a customer. These matters were:

(a) accounting for consideration paid by an agent to an end customer (often in the form of marketing incentives) that is not made in exchange for a distinct good or service. In determining whether an agent should reduce revenue by the amount of consideration paid to a customer, respondents were unsure:

(i) whether the agent can treat the end customer as its customer; and

(ii) whether and how the agent should consider the substance of its promise to the principal in respect of the consideration paid to the end customer.

(b) accounting for 'negative' revenue, including:

(i) whether and in what circumstances an entity should reclassify 'negative' revenue and present it in the 'expenses' categories; and

(ii) what the unit of account should be for assessing whether there is 'negative revenue'.

10. The staff's preliminary analysis of the main matters related to accounting for consideration payable to a customer, based on the characteristics to take further action described in the PIR framework indicated that:

    (a) there is some evidence to suggest that the requirements in IFRS 15 are insufficient for entities to consistently account for incentives paid by an agent to an end customer and for 'negative' revenue;

    (b) there is some evidence to suggest that the benefits to users are significantly lower than expected; and

    (c) these is insufficient evidence to suggest that the costs of applying the requirements on consideration payable to a customer are significantly greater than expected.

11. As evidence suggested that the characteristics for the IASB to take further action related to the clarify and sufficiency of requirements and to benefits might be present, the staff considered the prioritisation characteristics. They indicated that there could be different views about whether the matters related to consideration payable to a customer are prevalent and about whether the benefits of any action would be expected to exceed the costs.

12. For more details on the feedback received to the RFI and preliminary staff analysis see Appendix C which provides an extract from March 2024 Agenda Paper 6A on consideration payable to a customer.

13. In its March 2024 discussion, individual IASB members commented that:

    (a) the objective of the requirements on consideration payable to a customer is clear, but it can be challenging to apply them in complex fact patterns, including in the digital area.

    (b) it is difficult to determine whether diversity in practice reported by respondents results from inconsistent application of the requirements in similar fact patters. Diversity might relate to the complexity of underlying arrangements and differences in facts and circumstances.

(c) few preparers raised concerns related to consideration payable to a customer; the practice seems to have settled.

(d) information about gross versus net revenue is important to users. Paragraphs 111 and 115 of IFRS 15 set out the objective for disaggregation requirements and how an entity could meet that objective. However, it seems that in practice users of financial information do not always get the information they need, for example, information on 'negative' revenue. So the benefits of information about consideration payable to a customer might be lower—although not necessarily significantly lower—than expected.

(e) recognising 'negative' revenue could reflect the economics of the underlying transaction. It would also be in line with negative adjustments to revenue resulting from reassessing variable consideration.

(f) cases of entities having 'negative' revenue are rare. Users of financial statements are likely to explore such cases separately.

(g) there are some indications that the requirements in IFRS 15 could be clarified to improve consistency in application and the usefulness of the resulting information. However, the solution to matters raised by stakeholders is not obvious: IASB members had different views on whether the matters could and should be resolved through more specific application guidance or additional disclosure requirements.

(h) it is important to consider retaining convergence on this topic with the FASB's ASC Topic 606, Revenue from Contracts with Customers.

*Updated staff analysis*

14. At its March 2024 meeting, ASAF members provided feedback on the matters raised in the PIR of IFRS 15 and discussed by the IASB in January–March 2024.

15. Only a few ASAF members commented on matters related to consideration payable to a customer. Two ASAF members suggested the IASB address application matters related to 'negative' revenue. However, the member from the FASB said that:

(a) the ‘negative’ revenue matter is not pervasive enough to address in their jurisdiction; and

(b) some issues with applying the requirements on consideration payable to a customer result from entities’ preference for reporting marketing expenses rather than reducing revenue.

16. In the light of IASB members’ and ASAF members’ comments, the staff updated the analysis of prioritisation characteristics:

| Prioritisation characteristic | Staff comment |
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| **Consequences of the matter** | An entity’s determination on both the incentives matter and the ‘negative’ revenue matter would affect the amount of revenue presented in financial statements, which would affect profit margins. In outreach meetings users commented that information about margins can significantly influence their decisions. Some users said information disclosed in relation to consideration payable to a customer is often insufficient for users to compare margins across entities.<br><br>The feedback to the RFI also indicates some diversity in practice, which could hinder comparability of information among entities. However, it is difficult to establish whether that diversity results from inconsistent application of the requirements to similar fact patters or from the complexity of underlying arrangements and differences in the facts and circumstances. |
| **Pervasiveness of the matter** | Matters related to consideration payable to a customer were raised by many respondents to the RFI. However, few preparers raised such matters which may indicate that most preparers have overcome initial challenges in applying the requirements. |

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| | The feedback suggests that main questions often relate to arrangements involving digital platforms. The prevalence of such arrangements seems to differ among jurisdictions. A few respondents said that such arrangements—including 'negative' revenue cases—are common or are becoming increasingly common. However, a few respondents indicated that the cases of 'negative' revenue are not common in their jurisdictions.<br><br>The feedback from the ASAF did not suggest that matters related to consideration payable to a customer are a high priority in many jurisdictions. |
| **Ability of the IASB or the Committee to address the matter** | The IASB could consider the following options for resolving the matters:<br><br>(a) Option 1—providing application guidance to clarify:<br>(i) whether, and if so how, an agent could determine that an end customer is its customer;<br>(ii) whether an agent should reduce revenue by the amount of incentives paid to end customers if it has an implied obligation to the principal to provide incentives to end customers; and<br>(iii) whether, and if so in what circumstances, an entity should reclassify 'negative' revenue and present it as an expense; or<br><br>(b) Option 2—including in IFRS 15 specific disclosure requirements related to consideration payable to a customer. For example, the IASB could consider:<br>(i) requiring an entity to disclose the amount of consideration payable to customers/end customers and deducted from revenue or recognised as expenses; |

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| | (ii) requiring an entity to disclose the amount of consideration payable to a customer that exceeds the consideration expected to be received from that customer;<br><br>(iii) including in the application guidance on disclosure of disaggregated revenue an example of disaggregating revenue based on whether it is positive or negative. |
| **Costs versus benefits** | Option 1 would be intended to improve consistency in applying the requirements on consideration payable to a customer. However:<br><br>(a) it is not clear how significant the positive effect on comparability would be given that it is difficult to determine whether reported diversity in practice results from inconsistent application of the requirements.<br><br>(b) in many cases entities' challenges seem to relate to the complexity of underlying arrangements. It would be hard to remove such challenges unless the need for judgement is significantly reduced compared to the current requirements—this might conflict with the IASB's aim to provide principle-based requirements.<br><br>(c) providing application guidance would lead to additional costs because multiple entities would need to review their current accounting policies.<br><br>(d) any changes to IFRS 15 guidance could lead to a reduced level of convergence between IFRS 15 and Topic 606 and reduced comparability between entities applying IFRS 15 and those applying Topic 606, unless the FASB also decide to take action on this matter (see paragraph 15).<br><br>For these reasons, the staff think that the benefits of Option 1 would be unlikely to exceed the costs. |

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| | Option 2 would be intended to improve information users of financial statements receive on consideration payable to a customer and 'negative' revenue to enable their analysis of margins and future cash flows.<br><br>Option 2 is likely to cause less disruption in practice compared to Option 1 because entities would not need to review and potentially change their accounting policies. Entities' costs of providing information about incentives and 'negative' revenue might differ depending on the availability of this information in their systems.<br><br>The costs of Option 2 could be lower than those of Option 1. However, the benefits of Option 2 could also be lower because it would not reduce diversity in practice. It might also raise questions why the IASB is adding specific disclosure related to consideration payable to a customer but not adding them for other types of revenue-related information. On balance, the staff think that the benefits of Option 2 would be unlikely to exceed the costs. |

17. The framework states that a matter is classified as:

(a) medium priority if most of prioritisation characteristics are present to a large extent and the benefits of any action are expected to exceed the costs; and

(b) low priority if some of the prioritisation characteristics are present to some extent and the remainder of the characteristics are not met or there is insufficient information to conclude whether the characteristic is present.

18. On balance, the staff think there is insufficient evidence to classify matters related to consideration payable to a customer as medium priority because there is insufficient evidence that:

(a) the matters related to consideration payable to a customer are prevalent; or

(b) the benefits of any action would justify the costs.

### *Staff recommendation and question for the IASB*

19. Given the analysis in paragraphs 16–18, the staff recommend the IASB classify as low priority application matters related to consideration payable to a customer and explore these matters in the next agenda consultation.

| Question 1 for the IASB |
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| Do IASB members agree with the recommendation in paragraph 19 of this paper? |

### ***Significant financing component***

| **Summary of IFRS 15 requirements** |
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| Paragraph 60 explains that the promised amount of consideration is adjusted for the effects of the time value of money if the timing of payments provides the customer or the entity with a significant benefit of financing.<br>Paragraph 61 explains that the objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognise revenue at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer (ie the cash selling price).<br>Paragraph 62 sets out factors that each individually result in a lack of a significant financing component in a contract:<br>(a) the customer paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the customer.<br>(b) a substantial amount of the consideration promised by the customer is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the entity; and<br>(c) the difference between the promised consideration and the cash selling price of the good or service arises for reasons other than the provision of finance to either the |

**Summary of IFRS 15 requirements**

customer or the entity; and the difference is proportional to the reason for the difference.

Paragraph 64 states that when adjusting the promised amount of consideration for a significant financing component, an entity uses the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. After contract inception, an entity does not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the customer's credit risk).

*Feedback*

20. A few respondents reported challenges with applying the requirements on accounting for a significant financing component. The most common concern was related to the requirement in paragraph 64 of IFRS 15 to determine a discount rate at the inception of the contract and not to update the rate during the contract term. Specifically:

(a) a few respondents from Brazil said that in their view the discount rate should be regularly adjusted for inflation. They said the issue has become more important in recent years because rising inflation rates result in a significant impact on the financial statements—in particular, for long-term contracts such as energy concessions which typically have 20-30-year contract terms and in which the consideration is adjusted for inflation at least annually. One accounting body called the requirement not to update the discount rate after the contract inception a fatal flaw in the Standard. The respondents suggested the IASB amend IFRS 15 to require the discount rate to be updated every reporting period for contracts with a term longer than 12 months.

(b) a few other respondents said it is unclear whether the discount rate should be updated when a contract is modified, or circumstances change after the inception of the contract. They suggested the IASB add application guidance, illustrative examples and/or undertake a narrow-scope amendment project to address situations when the timing of satisfaction of performance obligations changes either at the customer's discretion or due to circumstances which were unforeseen at contract inception.

21. Other matters raised by one or a few respondents are included in Appendix A.

### *Staff analysis*

#### ***Clarity and suitability of the requirements***

22. Paragraph 61 of IFRS 15 explains the objective of discounting the promised amount of consideration, which is to reflect, in the amount of revenue recognised, the cash selling price that would have been paid when (or as) the goods or services are transferred to the customer.

23. In developing the Standard, the IASB and the FASB (the boards) considered whether an entity would be required to revise the discount rate used in determining the amount of a significant financing component if there was a change in circumstances. Paragraphs BC242–BC243 of the Basis for Conclusions on IFRS 15 explain that the boards decided against re-evaluating the discount rate. They observed that it would be impractical for an entity to update the transaction price for changes in the assessment of the discount rate.

24. Additionally, paragraph BC244 of the Basis for Conclusions on IFRS 15 explains that:

    (a) a contract with a customer that has a significant financing component would be separated into a revenue component (for the notional cash sales price) and a loan component (for the effect of the deferred or advance payment terms); and

    (b) the accounting for a trade receivable arising from a contract that has a significant financing component should be comparable to the accounting for a loan with the same features.

25. The staff also note that the IFRS 15 requirement not to update the discount rate is consistent with the IFRS 16 requirement to use unchanged discount rate when there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments.[2] Paragraph BC193 of IFRS 16 states that not reassessing the discount rate is generally consistent with the approach applied to financial instruments accounted for using the effective interest method.

26. As for the question on whether the discount rate should be updated when a contract is modified, paragraphs 20–21 of IFRS 15 provide requirements for accounting for a contract modification as either:

    (a) a separate contract;

    (b) a termination of the existing contract and the creation of a new contract; or

    (c) as if it were a part of the existing contract.

27. An entity would need to exercise judgement and consider the facts and circumstances in applying paragraphs 20–21 of IFRS 15 to determine how to account for a modification.

28. In the staff's view, the requirements on determining the discount rate used for contracts with a significant financing component are working as intended. Considering that only a few respondents suggested changing the principle for updating discount rates or asked for additional clarifications of the requirements on modifications, we conclude that the matters are not widespread.

29. For the reasons discussed in paragraphs 22–28, the staff think that the feedback provides insufficient evidence to suggest that there are fundamental questions about the clarity and suitability of the requirements on the discount rate applied to contracts with a significant financing component or that the requirements are not working as intended.

[2] See paragraph 43 of IFRS 16.

***Benefits to users***

30. The feedback received during the PIR provided no evidence of diversity in applying the requirements on discount rates to contracts with a significant financing component. Two respondents from Brazil said that the requirement not to update the initial discount rate results in information that does not reflect the economic substance of the contracts with consideration indexed to inflation. However, users of financial statements have not raised concerns about this issue. Consequently, the feedback provides insufficient evidence that the benefits to users of financial statements of the revenue information resulting from the application of the requirements are significantly lower than expected.

***Costs of applying the requirements***

31. We received no feedback on the RFI that applying the requirements on discount rates to contracts with a significant financing component is more costly than expected. Therefore, the staff think that there is no evidence that the costs of applying the requirements are significantly greater than expected. We note, however, that changing the principle of using the unchanged discount rate for contracts with a significant financing component could increase costs for some entities.

### *Staff recommendation and question for the IASB*

32. Based on the analysis in paragraphs 22–31, the staff think the findings from the RFI provide insufficient evidence that the characteristics to take further action described in the PIR framework are present. Therefore, the staff recommend the IASB take no further action on application matters raised by respondents in relation to the discount rate for contracts with a significant financing component.

| Question 2 for the IASB |
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| Do IASB members agree with the staff recommendation in paragraph 32 of this paper? |

33. Appendix A summarises feedback on matters raised by one or a few respondents and provides staff responses. The staff do not recommend acting on any of these matters because the feedback does not provide evidence of fundamental questions about the clarity and suitability of the principles in the requirements, of significant diversity in application or significant ongoing costs. The feedback received does not suggest that the matters are pervasive or have substantial consequences on revenue information provided in financial statements.

| Question 3 for the IASB |
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| Do IASB members agree with the staff recommendation in paragraph 33 of this paper? |

## Appendix A—Other application matters raised by a few respondents

| | Application matter | Staff response |
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| 1 | A few respondents suggested the IASB provide additional application guidance and/or illustrative examples on how to assess whether a significant financing component exists applying the criterion in paragraph 62(c) of IFRS 15. That paragraph states that a significant financing component does not exist if the difference between the promised consideration and the cash selling price of the good or service arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. The respondents would like more clarity on what ‘other’ reasons might be and how to assess whether the difference is proportional to the reason. | Paragraph 62(c) of IFRS 15 says that the payment terms might provide the entity or the customer with protection from the other party failing to adequately complete some or all of its obligations under the contract rather than contain a significant financing component. Paragraph BC233(c) of the Basis for Conclusions on IFRS 15 further explains that a customer may retain or withhold some consideration that is payable only on successful completion of the contract or on achievement of a specified milestone. Alternatively, the customer might be required to pay some consideration upfront to secure a future supply of limited goods or services. The primary purpose of those payment terms may be to provide the customer with assurance that the entity will complete its obligations satisfactorily under the contract, rather than to provide financing to the customer or the entity respectively.<br><br>Determining whether a significant financing component exists would depend on the facts and circumstances. The staff suggest no action because the feedback does not suggest that the matter is widespread. |
| 2 | Two standard-setters suggested the IASB clarify accounting for significant financing component if non-cash consideration is received upfront. | The staff suggest no action because the feedback does not suggest that the matter is widespread. |

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| 3 | An accounting firm suggested the IASB clarify how to calculate a significant financing component if there is negative interest rate and how to determine a discount rate if there are multiple sources of financing. | The staff suggest no action because the feedback does not suggest that the matters are widespread. |
| 4 | A standard-setter said that calculations of significant financing component are often complex, in particular for complex arrangements, and suggested the IASB add illustrative examples. | The staff note that it is expected that complex arrangements might result in complex accounting. The staff suggest no action because the feedback does not suggest that the matter is widespread and adding examples for specific complex fact patterns is unlikely to help many stakeholders because application of the requirements would depend on the facts and circumstances. |
| 5 | A standard-setter suggested the IASB consider clarifying whether charges for late payments linked to the passage of time represent a significant financing component or penalties. | The identification of a significant financing component would depend on the facts and circumstances. The staff suggest no action because the feedback does not suggest that the matter is widespread. |

# Appendix B—FASB PIR of Topic 606: Extracts from the November 2023 Public Roundtable discussion materials and minutes[3]

**Discussion materials**

**Area G: Consideration Payable to a Customer**

51. Stakeholders stated that it can be difficult to determine whether the consideration payable to a customer guidance in paragraphs 606-10-32-25 through 32-27 should be applied to payments made to a customer's customer, or whether such payments should be accounted for as marketing expense. Practitioners have noted that it is generally clear that if there is a contractual linkage between the entity and the customer for the payment to the customer's customer, then the payment should be recognized as a reduction of revenue under the consideration payable guidance. However, when no contractual linkage exists, stakeholders noted that the accounting determination can be challenging and the staff has observed that, generally, practice has recently trended toward including implied promises to customers' customers as a reduction of revenue.

52. Topic 606 includes a framework for evaluating whether payments made to customers should be recognized as a reduction of revenue or as an expense. However, that framework does not address payments made by an entity to its customer's customer (for example, the incentive payments provided by a platform entity to users of its platform that are the customers of service providers on the platform whom the entity identifies as its customers). Furthermore, the consideration payable to a customer guidance in Topic 606 was largely unchanged from the previous revenue guidance in Topic 605 and, therefore, similar challenges existed under Topic 605.

53. During the implementation of Topic 606, the TRG discussed the consideration payable to a customer guidance and which payments should be subject to the guidance (for example, whether an entity should only assess payments to its customers or should also capture payments made to the customer's customer). The TRG did not definitively conclude on the question but, instead, discussed specific situations in which an entity should record payments to a customer's customers against revenue. However, the TRG did not address whether those payments must always be accounted for in this manner.

54. The staff observes that the issues raised by stakeholders are not a result of specific guidance in Topic 606 and that these issues also arose under the previous revenue guidance in Topic 605. On the basis of the staff's outreach, many of the scenarios in which these questions arise relate to technology platforms that connect end users with a supplier or service provider (for example, ride-share services or food delivery services). Therefore, the staff thinks that this issue is being raised more frequently under Topic 606 because of new types of transactions rather than the

[3] See November 2023 Public Roundtable Discussion Materials and Meeting Minutes.

issuance of the guidance in Topic 606. In addition, the staff thinks that an underlying issue for those types of transactions is the identification of which party in the transaction is the entity's customer. Historically, the Board has not weighed in on that question because the Board believed that entities are best suited to make those determinations.

55. Another issue that was raised by some stakeholders is the accounting for negative revenue and whether those amounts should be reclassified to expense. Although the TRG briefly discussed this issue, it did not reach a conclusion on the accounting for negative revenue. However, the staff observes that, generally, practice has recently trended toward applying the previous guidance in Subtopic 605-50, Revenue Recognition—Customer Payments and Incentives, by analogy. In addition, the staff thinks that this issue is not pervasive on the basis of stakeholders' feedback received and the PIR monitoring activities.

**Minutes**

**Consideration Payable to Customers**

Participants observed diversity in accounting for payments made to a customer's customer, either as a reduction of revenue or a marketing expense, and challenges in determining whether the arrangement includes an implied customer. Some participants suggested targeted improvements, such as clarifying who is the customer and whether the guidance on consideration payable to a customer applies to a payment made to a customer's customer. Furthermore, participants noted that because of the lack of explicit guidance on negative revenue under Topic 606, some companies refer to the previous revenue guidance under Topic 605 and others do not. A few practitioner participants noted that additional guidance regarding negative revenue could be beneficial, while a preparer participant stated that companies should have flexibility to evaluate how to report negative revenue.

# Appendix C—Extract from March 2024 Agenda Paper 6A *Determining the transaction price*

### *Consideration payable to a customer*

**Summary of IFRS 15 requirements**

Paragraph 70 of IFRS 15 states that consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer). Consideration payable to a customer also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer).

An entity accounts for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity.

Paragraph 71 requires an entity to account for the purchase of a good or service in the same way that it accounts for other purchases from suppliers if consideration payable to a customer is a payment for a distinct good or service from the customer. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity accounts for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, it accounts for all of the consideration payable to the customer as a reduction of the transaction price.

Paragraph 72 states that if consideration payable to a customer is accounted for as a reduction of the transaction price, an entity recognises the reduction of revenue when (or as) the later of either of the following events occurs:

(a) the entity recognises revenue for the transfer of the related goods or services to the customer; and

**Summary of IFRS 15 requirements**

(b) the entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary business practices.

*Feedback*

11. Many respondents (mostly standard-setters, accounting bodies and accounting firms) commented on accounting for consideration payable to a customer, mainly focusing on the matters related to accounting for marketing incentives and 'negative' revenue that were spotlighted in the RFI. A few respondents said that IFRS 15 requirements are an improvement on IAS 18 *Revenue* that had no requirements on consideration payable to a customer. However, some respondents identified matters related to accounting for consideration payable to a customer as major application matters.

***Marketing incentives***

12. Many of those commenting on the topic (mostly standard-setters) confirmed that entities are sometimes unsure how to account for incentives offered in multi-party arrangements. The main question related to accounting by a party acting as an agent for a marketing incentive provided to end customers—with some agents accounting for such incentives by reducing revenue and others treating them as marketing expenses. Most of the examples given by respondents related to discounts, bonuses, loyalty points and/or cashbacks offered by digital platform entities such as food ordering and ride hail platforms, online distributors of retail and consumer goods, online ticket resellers and fintech companies. A few respondents, mostly from Asia, said that such arrangements are common or have become more common since IFRS 15 was developed.

13. Most of those commenting on this matter asked for application guidance on accounting for incentives paid by an agent to end customers, including how to determine whether an end customer is an agent's own customer and what is the nature

of the agent's obligations in such arrangements. An accounting firm suggested that if clarifications on accounting for consideration payable to a customer are not made, the IASB should consider requiring an entity acting as an agent to disclose the value of payments made to end customers outside the direct distribution chain that are recognised as an expense.

14. A few standard-setters and accounting bodies raised the matter of accounting for marketing incentives more broadly (not just limited to accounting by an agent in multi-party arrangements). They asked for more application guidance and/or illustrative examples on determining whether to account for incentives paid to customers, customer's customers or on behalf of a customer to a third party as a reduction of revenue or as marketing expenses.

15. In outreach meetings, some users of financial statements noted that there is diversity in practice in how entities present consideration payable to a customer. They said disclosed information is often insufficient for users to compare margins across entities. A few users said it would be helpful if entities disclosed gross revenue, amounts of incentives deducted from revenue or recognised as expenses and judgements behind the accounting policy choices because this information helps users forecast future cash flows.

***'Negative' revenue***

16. Many respondents (mostly standard-setters) said there is diversity in accounting for consideration payable to a customer that exceeds the amounts of consideration expected to be received from a customer—with some entities accounting for the excess as 'negative' revenue and others as an expense. Respondents said cases of 'negative' revenue most commonly arise when entities offer large incentives to enter new markets or pay large penalties for poor quality goods or services provided to customers. A few respondents reported that 'negative' revenue cases were common or are becoming increasingly common, especially for digital platform entities, although a few standard-setters said it is uncommon for entities in their jurisdictions to provide incentives that exceed expected consideration.

17. Those commenting on this matter asked the IASB to clarify whether revenue can be negative and to provide guidance on whether and in what circumstances an entity should reclassify ‘negative’ revenue and present it in the ‘expenses’ categories. In addition, a few respondents asked for guidance on the unit of account for assessing whether there is ‘negative’ revenue—for example, whether it should be done on a transaction basis, contract basis, customer basis, or on another basis. A few respondents suggested the IASB consider legacy US GAAP guidance on accounting for negative revenue.

***Findings of the FASB’s post-implementation review***

18. The FASB also identified challenges in accounting for consideration payable to a customer as a major application matter. Appendix B provides more information of the FASB’s findings on this matter.

## *Staff analysis*

***Clarity and suitability of the requirements***

19. The main matters raised by respondents relate to accounting for consideration paid by an agent to an end customer in the form of incentives (often marketing incentives) that is not made in exchange for a distinct good or service and accounting for ‘negative’ revenue.

20. In determining whether an agent should reduce revenue by the amount of consideration paid to a customer, questions most commonly related to:

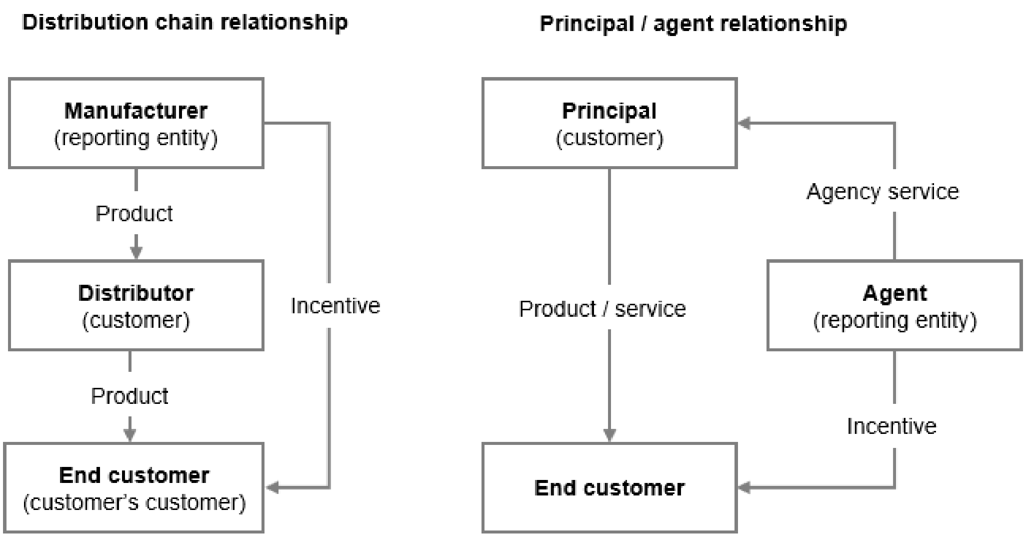
    (a) whether the agent can treat the end customer as its customer; and

    (b) whether and how the agent should consider the substance of its promise to the principal in respect of the consideration paid to the end customer.

21. In January–November 2015, the Transition Resource Group (TRG) discussed whether the guidance on consideration payable to a customer relates to customers in the

distribution chain, or more broadly to a customer of an entity's customer—this discussion is relevant to the question in paragraph 20(a).

22. In discussing this issue, TRG members considered whether the reference to 'other parties that purchase the entity's goods or services from the customer' in paragraph 70 of IFRS 15 and related explanation in paragraph BC255 of the Basis for Conclusions is meant to apply to customers in the distribution chain only or broader (see the diagram below illustrating the difference between a distribution chain relationship and a principal/agent relationship).




23. Most TRG members viewed references to 'other parties that purchase the entity's goods or services from the customer' in paragraph 70 of IFRS 15 and paragraph BC255 as only an example of a customer's customer. These members supported the view that an entity's customers include those in the distribution chain and *might* include a customer's customer outside of the distribution chain depending on the facts and circumstances of the arrangement.[4] That is a reporting entity that is an agent *might* view both the principal and the end customer as customers in the arrangement.

[4] See November 2015 TRG Agenda ref 44 *July 2015 Meeting—Summary of Issues Discussed and Next Steps*.

24. The members argued that payments to an end customer (including parties outside the distribution chain) are usually directly linked to the revenue transaction because the entity is making the payment to increase its revenue. For example, an agent making a payment to an end customer typically intends to increase the volume of transactions on which it earns its agency fee. Additionally, both the principal and the end customer are usually aware of the agent's involvement in the transaction. Thus, in these TRG members' view, the payment should reduce the agent's revenue from the arrangement.

25. The TRG also commented on determining how to treat promises made by an agent in respect of incentives. The TRG noted that regardless of whether an entity that is an agent concludes that an end customer is also a customer of the entity, a payment to an end customer that was *contractually* required based on an agreement between the entity and the principal would represent consideration payable to a customer. However, the TRG did not comment on whether the same would be true for an agent's implied (rather than contractual) obligation to provide incentives to the end customer on the principal's behalf.

26. On this matter, in December 2021 speech, Jonathan Wiggins (Senior Associate Chief Accountant, US SEC Office of the Chief Accountant) noted that when determining whether incentives need to be recorded as a reduction of revenue, an entity should consider whether it has an implicit or explicit promise to provide incentives to the end customer on the seller's behalf. Further, the entity should consider whether incentives are an in-substance price concession because the seller has a valid expectation that the entity will provide incentives to the end customer of the good or service.

27. Although based on the TRG discussion the IASB decided not to take any further action, the staff think that the feedback received on the RFI indicates that views still differ on whether IFRS 15 requirements would allow an agent:

(a) to treat an end customer outside of the distribution chain as its customer; and

(b) to reduce revenue by the amount of incentives paid to an end customer if the agent has an implied obligation to a principal to provide incentives to the end customer (regardless of whether the agent concludes that the principal's end customer is also a customer of the agent).

28. With regards to the second main matter—'negative' revenue—most common questions related to:

    (a) whether and in what circumstances an entity should reclassify 'negative' revenue and present it in the 'expenses' categories; and

    (b) what the unit of account should be for assessing whether there is 'negative revenue'.

29. The TRG did not discuss accounting for 'negative' revenue. Paragraph 70 of IFRS 15 states that an entity accounts for consideration payable to a customer (that is not in exchange for a distinct good or service) as a reduction of the transaction price, and therefore of revenue. However, IFRS 15 does not provide requirements on accounting for consideration payable to a customer that exceeds the transaction price. This scenario was possible in the request the IFRS Interpretations Committee received about an airline's obligation to compensate customers for delayed or cancelled flights.[5] However, the Committee did not consider the question of whether the amount of compensation recognised as a reduction of revenue is limited to reducing the transaction price to nil.

30. The TRG discussed which payments are in the scope of the guidance on consideration payable—this discussion is relevant to determining the unit of account in assessing whether there is 'negative' revenue.

31. TRG members supported one of two views. In determining the amount of consideration payable to a customer that should reduce the transaction price and so revenue:

    (a) an entity should consider all consideration payable to a customer—this view is based on the discussion in paragraphs BC256–BC257 of the Basis for

[5] See September 2019 Committee Agenda Decision *Compensation for Delays or Cancellations*.

Conclusions that consideration received from a customer and consideration paid to a customer could be linked even if they are separate events; or

(b) an entity should consider consideration payable to a customer only within the context of that contract with a customer (or combined contracts)—this view is based on paragraph 4 of IFRS 15 that states that the Standard ‘specifies the accounting for an individual contract with a customer’.

32. The TRG concluded that a reasonable application of either view should result in similar reporting outcomes. The IASB decided not to take any further action in relation to this question.

33. The staff think that the feedback to the RFI indicates that the requirements in IFRS 15 are insufficient for entities to determine whether to record ‘negative’ revenue or reclassify it as an expense. There is also scope for clarifying how to determine the unit of account for determining whether there is ‘negative’ revenue. However, on the latter matter the staff acknowledge this determination requires judgement. We would also expect that based on paragraph 126 of IFRS 15 an entity would disclose information about the method used to estimate ‘negative’ revenue, if such information is material.

34. For the reasons in paragraphs 19–33, the staff think there is evidence to suggest that the requirements in IFRS 15 are insufficient for entities to consistently account for incentives paid by an agent to an end customer and for ‘negative’ revenue.

35. The staff note that a few respondents raised the matter of accounting for marketing incentives more broadly (not just limited to accounting in multi-party arrangements). In the staff’s view, their concerns mostly related to challenges in determining the nature of an entity’s obligation in an arrangement—that is whether an entity pays consideration to the customer in exchange for a distinct good or service. The IASB already considered challenges related to identifying a promise to transfer goods or

services and applying the notion of 'distinct' and tentatively decided to take no further action on related application matters.[6]

***Benefits to users***

36. Accounting for incentives and 'negative' revenue can have a significant effect on reported revenue. Respondents reported diversity in relation to both matters which would hinder comparability of information between entities.

37. We also heard from some users that there is diversity in practice in how entities present consideration payable to a customer. They said disclosures are often insufficient for users to compare margins across companies.

38. For the reasons in paragraphs 36–37, the staff think that the feedback indicates that the benefits to users are significantly lower than expected.

***Costs of applying the requirements***

39. The feedback to the RFI did not indicate that entities incur significant costs in accounting for incentives paid to end customers or for 'negative' revenue. However, the lack of specific requirements on accounting for these matters could lead to auditing and enforcing challenges—many accounting firms and both regulators raised concerns about one or both matters in their comment letters. This might indicate that the costs of auditing and enforcing the requirements related to consideration payable to a customer could be greater than expected, although there is insufficient evidence to suggest that these costs are significantly greater.

[6] See February 2024 Agenda Paper 6A *Identifying performance obligations in a contract*.