IAS 18 *Revenue* (September 2008)

IAS 18 *Revenue*/IAS 39 *Financial Instruments: Recognition and Measurement*—Accounting for trailing commissions

The IFRIC received a request for guidance on how an entity should account for ongoing commission arrangements, referred to as trailing commissions, in the particular circumstances where the contractual obligation for the payment/receipt of the commission is not linked to the performance of any future service.

An example of the type of arrangement in question is when a financial adviser directs its client’s funds to an investment manager’s product. The adviser receives an initial commission for the placement of the business with the investment manager and a further ongoing (trailing) commission provided that the client remains invested in the product for a specified time. The issue focuses on the accounting treatment by the financial adviser to the client

The IFRIC noted that similar arrangements are present in many industries. Consequently, the issue is widespread. In addition, the IFRIC is aware that practice in this area is diverse. Diversity arises in part because of difficulty in determining, considering all relevant circumstances including the terms of the contractual arrangement, whether the entity is required to provide any future service to be entitled to receive the commission. Diversity also arises because IAS 18 and IAS 39 have different recognition criteria and views differ on whether IAS 18 or IAS 39 is the relevant standard.

Given the complexity of the issues and the pervasive effect of any conclusions reached, the IFRIC concluded that it would not be able to reach a consensus on a timely basis. The IFRIC also noted that the Board was considering these issues in its projects on revenue recognition and liabilities. The IFRIC therefore decided not to add this issue to its agenda.