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## IASB® meeting

Date	<b>February 2024</b>
Project	<b>Post-implementation Review of IFRS 15</b>
Topic	<b>Principal versus agent considerations</b>
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## Purpose and structure

1. This paper provides a summary of the feedback and staff analysis on question 5 *Principal versus agent considerations* of [Request for Information: Post-implementation Review of IFRS 15 Revenue from Contracts with Customers](#) (the RFI).
2. At this meeting, the IASB will be asked to decide whether to take further action on application matters related to principal versus agent considerations and if so, how to prioritise those matters, applying its framework for responding to the matters identified in a post-implementation review (PIR).<sup>1</sup>
3. This paper provides:
  - (a) [summary of staff recommendations](#);
  - (b) [background](#) to IFRS 15 principal versus agent requirements;
  - (c) [overview of the feedback](#); and
  - (d) [summary of the feedback and staff analysis of specific application matters](#).

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<sup>1</sup> See Agenda Paper 6 for the framework.

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## Summary of staff recommendations

4. Based on the analysis in this paper, the staff recommend the IASB:
  - (a) classify as low priority the matter raised by respondents in relation to assessing control over services and intangible assets and consider the matter in the next agenda consultation;
  - (b) take no further action on application matters related to:
    - (i) the relationship between the concept of control and the indicators in paragraph B37A;
    - (ii) identifying a customer of a supplier that sells its goods or services through an intermediary;
    - (iii) identifying performance obligations in arrangements involving principal versus agent determinations;
    - (iv) disclosure requirements about principal versus agent determinations; and
    - (v) other aspects of principal versus agent determinations described in Appendix A.
  
5. The staff also recommend the IASB discuss later whether to add some explanations from paragraphs BC385H and BC385E of the Basis for Conclusions to the Standard, along with possible clarifications of other aspects of IFRS 15. These explanations would help to clarify some aspects of matters (b)(i) and (b)(ii) in paragraph 4 and, combined with the other possible clarifications, might result in sufficient improvement to IFRS 15 to warrant standard-setting.

## Background

6. Before IFRS 15 was issued in 2014, the guidance on assessing whether an entity is a principal or an agent—if another party is involved in providing goods or services—was limited. The basis for the assessment was the transfer of risks and rewards of ownership of the goods or services. IFRS 15 significantly extended the guidance by:

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- (a) introducing a new principle for assessing whether an entity is a principal or an agent based on whether an entity controls the specified goods or services before transferring them to the customer;
  - (b) introducing the concept of specified goods and services; and
  - (c) clarifying different performance obligations of a principal (to provide the specified goods or services itself) and an agent (to arrange for the goods or services to be provided by the other party).
7. IFRS 15 requirements on principal versus agent considerations are converged with the requirements in the FASB's ASC Topic 606 Revenue from Contracts with Customers.

## Overview of the feedback

8. Most respondents commented on the challenges with determining whether an entity is a principal or an agent in a multi-party arrangement. It was one of the most common topics raised in the comment letters and our outreach meetings throughout the project. Some respondents representing various stakeholder types, including many standard-setters and both regulators, identified 'principal versus agent considerations' as a major application matter. A few respondents pointed out that the challenges are cross-cutting, affecting various IFRS Accounting Standards, including IFRS 10 *Consolidated Financial Statements*, IFRS 16 *Leases* and IFRS 9 *Financial Instruments*.
9. Many respondents (mostly standard-setters, accounting bodies and accounting firms) said that the requirements are generally clear and sufficient and agreed with the main principles for the principal versus agent assessment. Some of them said they would prefer not to have significant changes made to the requirements to avoid unintended consequences and disruption to established accounting policies. An accounting firm said that they do not believe that the principal versus agent guidance would benefit from significant further time and effort by the IASB.

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10. However, many respondents reported challenges applying judgement when analysing complex fact patterns and suggested the IASB develop additional application guidance, illustrative examples and/or educational materials.
  11. Application challenges mainly related to:
    - (a) applying the concept of control and related indicators;
    - (b) identifying a customer of a supplier that sells its goods or services through an intermediary;
    - (c) identifying performance obligations; and
    - (d) disclosure requirements.
  12. The FASB also identified challenges in determining whether an entity is a principal or an agent as a major application matter. [Appendix B](#) provides more information of the FASB's findings on this matter.

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

13. Based on the feedback the staff have identified four main application matters:
  - (a) [applying the concept of control and related indicators](#);
  - (b) [identifying a customer of a supplier that sells its goods or services through an intermediary](#);
  - (c) [identifying performance obligations](#); and
  - (d) applying [disclosure requirements](#).
14. This section analyses whether to take action in response to these application matters based on whether the feedback provides evidence that:
  - (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 new requirements and auditing and enforcing their application are significantly greater than expected (or there is a significant market development since the new requirements were issued for which it is costly to apply the new requirements consistently).
15. In addition, [Appendix A](#) summarises feedback on other 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.

### ***Applying the concept of control and related indicators***

#### **Summary of IFRS 15 requirements**

When another party is involved in providing goods or services to a customer, paragraph B34 of IFRS 15 requires an entity to determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent).

Paragraph B34A states that to determine the nature of its promise the entity:

- (a) identifies the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party); and
- (b) assesses whether it controls each specified good or service before that good or service is transferred to the customer.

Paragraphs B35 and B36 explain that:

### Summary of IFRS 15 requirements

(a) a principal controls a good or service before it is transferred to a customer. A principal's performance obligation is to provide that good or service to the customer. The principal recognises as revenue the gross amount of the consideration received in exchange for the good or service transferred.

(b) an agent does not control a good or service before it is transferred to a customer. An agent's performance obligation is to arrange for another party to provide the good or service to the customer. The agent recognises as revenue the fee or commission received for providing the services of arranging for another party to provide the good or service to the customer.

To help an entity assess whether it controls a specified good or service before it is transferred to a customer, paragraph B37 of IFRS 15 provides a non-exhaustive list of indicators of control:

(a) the entity is primarily responsible for fulfilling the promise to provide the specified good or service;

(b) the entity has inventory risk before the specified good or service has been transferred to a customer or after the transfer of control to the customer; and/or

(c) the entity has discretion in establishing the price for the specified good or service.

Paragraph B37A explains that the indicators in paragraph B37 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the contract. In addition, different indicators may provide more persuasive evidence in different contracts.

### *General feedback*

16. Many respondents (mostly standard-setters, accounting firms and accounting bodies) said that entities sometimes struggle to apply the concept of control and the related indicators. The challenges are particularly common in service industries such as telecommunications, software, IT platforms, healthcare, pharmaceuticals and fintech. Examples of challenging arrangements include arrangements that involve digital services or items, intangible assets, a licence bundled with services provided by third

parties or reselling services bundled with own services, and arrangements between more than three parties.

17. Some respondents said that the large degree of judgement involved in analysing such arrangements could result in diversity in practice or said they observed inconsistent outcomes in applying the requirements. This was particularly the case for online e-commerce platforms, internet advertising services, consumer goods and retail, fintech and technology-based industries. In these industries entities might use multiple technological platforms as intermediaries for the provision of services or distribution of virtual goods.
18. Most application matters raised about applying the concept of control and the indicators related to:
  - (a) the lack of clarity about the [relationship between the concept of control and the indicators in paragraph B37](#); and
  - (b) difficulties in [assessing control over services and intangible assets](#).

*The relationship between the concept of control and the indicators*

**Feedback**

19. Some respondents (mostly standard-setters and accounting bodies) said that some entities find it challenging to apply the requirements on control with the related indicators in paragraphs B35–B38 in determining whether an entity is a principal or an agent. Specifically, respondents raised concerns about:
  - (a) some entities overlooking the concept of control and going straight to the indicators in paragraph B37—using the indicators as a checklist.
  - (b) some entities struggling to apply indicators when they point to different conclusions, which sometimes results in different accounting outcomes for similar fact patterns.

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- (c) a lack of clarity on how the indicators in paragraph B37 of IFRS 15 relate to the concept of control of a good or service before it is transferred to a customer. For example, in the view of a few respondents:
- (i) the fact that an entity is primarily responsible for fulfilling a contract does not always provide evidence that the entity controls the good or service before it is transferred to the customer;
  - (ii) the fact that an entity has inventory risk after the transfer of control (for example, if the customer has a right of return) does not provide any evidence as to whether an entity controls the good or service before it is transferred to the customer; and
  - (iii) whether or not an entity has discretion in determining the selling price does not always indicate prior control.
20. Respondents' suggestions for addressing their concerns included:
- (a) moving to the body of the Standard the explanation of the primacy of the control concept and its relationship with the indicators in paragraph BC385H. Some respondents noted that the Basis for Conclusions is not part of the mandatory guidance and in some jurisdictions it is not endorsed or translated into local languages.
  - (b) clarifying whether the indicators of control in paragraph B37 of IFRS 15 have the same weight or whether some indicators are more relevant to the assessment of control than the others. One respondent suggested specifying that the weight that is put on the indicators is a matter of judgement and depends on the circumstances.
  - (c) adding guidance, illustrative examples or flow charts clarifying how the indicators help establish who controls a good or a service before it is transferred. A few respondents suggested that the IASB could develop additional guidance or an illustrative example using the fact pattern and the thought process in the IFRS Interpretations Committee (Committee) May 2022 Agenda Decision [Principal versus Agent: Software Reseller](#). However, a few



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respondents argued that the agenda decision seems to give more prominence to the indicators than to the overall assessment of control.

**Staff analysis**

*Clarity and suitability of the requirements*

21. Understanding the relationship between the concept of control and the indicators in paragraph B37 is central to assessment of whether an entity acts as a principal or an agent. Questions about that relationship are not new. In 2014–2015, the Transition Resource Group (TRG) discussed concerns raised about the relationship by various stakeholders.<sup>2</sup> As a result, in April 2016 the IASB issued [Clarifications to IFRS 15](#). The FASB made the same clarifications to Topic 606.
22. With the clarifications, the IASB more clearly established a link between the concept of control and the indicators by:
- (a) clarifying in paragraph B37 that the indicators are not an exhaustive list and merely support the assessment of control. Paragraph BC385H in the Basis for Conclusions further explains this point:

BC385H...the indicators in paragraph B37 were included to support an entity's assessment of whether it controls a specified good or service before transfer in scenarios for which that assessment might be difficult. The indicators (a) do not override the assessment of control; (b) should not be viewed in isolation; (c) do not constitute a separate or additional evaluation; and (d) should not be considered a checklist of criteria to be met, or factors to be considered, in all scenarios.

Considering one or more of the indicators will often be helpful and, depending on the facts and circumstances, individual indicators will be more or less relevant or persuasive to the assessment of control.

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<sup>2</sup> The IASB and FASB's joint Transition Resource Group was formed to support implementation of IFRS 15 and Topic 606 and discussed potential implementation issues submitted by stakeholders.

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- (b) explaining in added paragraph B37A that not every indicator is always relevant and one or more indicators might provide more persuasive evidence to support the assessment of control in different scenarios.
  - (c) adding and amending illustrative examples to show:
    - (i) how an entity assesses control without considering the indicators in paragraph B37—Example 46 (specialised equipment); and
    - (ii) how an entity decides whether it acts as a principal or an agent when the indicators point to different conclusions—Example 46A (office maintenance services).
  - (d) adding explanatory text to each of the indicators in paragraph B37 to establish their link to the concept of control.
23. Post implementation, in May 2022 Agenda Decision *Principal versus Agent: Software Reseller*, the Committee explained how to consider the concept of control and the indicators in the analysis of the provided fact pattern.
24. The agenda decision does not give a definitive answer on whether the reseller in the specified fact pattern is a principal or an agent, because the conclusion depends on a thorough analysis of the terms and conditions of the contracts and other facts and circumstances—which the entity’s management should be in a position to do.
25. We note the comments in paragraph 19(c) that the indicators in paragraph B37 of IFRS 15 do not always provide evidence that the entity controls the good or service before it is transferred to the customer. The IASB included in IFRS 15 indicators that it considered to be typically more relevant to the evaluation of control. However, the presence of an indicator is not intended to be conclusive evidence of control. The assessment should be made considering specific facts and circumstances and the concept of control.
26. In the staff’s view, the clarifications made by the IASB address most concerns about the relationship between control and the indicators and the weighing of indicators and

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paragraphs B34A, B35A, B37 and B37A provide sufficient guidance on the relationship between the concept of control and the indicators.

27. We acknowledge that some of the explanations and examples are in non-mandatory materials (for example, in paragraph BC385H of the Basis for Conclusions on IFRS 15) and therefore might not be visible or accessible for some stakeholders. Including the explanations from paragraph BC385H in the Standard itself might increase their prominence, helping entities make judgements, particularly in jurisdictions where the Basis for Conclusions is not translated. However, such amendments would have to go through due process and may not be worth doing in isolation. Before finalising the project, it might be worth considering whether to add some explanations from paragraph BC385H of the Basis for Conclusions to the Standard, along with possible clarifications of other aspects of IFRS 15. These explanations, combined with the other possible clarifications (for example, those in paragraph 61 of this paper and paragraph 31 of Agenda Paper 6A), might result in sufficient improvement to IFRS 15 to warrant standard-setting. We can return to this suggestion in a future paper.

*Benefits to users of financial statements*

28. Deciding whether an entity is a principal or an agent can have a very significant effect on the reported revenue. Entities interpreting the requirements differently may come to different conclusions about whether an entity is a principal or an agent, which would hinder comparability of information between those entities.
29. Paragraph 19(b) suggests that there could be some diversity in accounting outcomes. However, it is difficult to judge whether that diversity results from differing interpretations of the concept of control and the indicators, or whether different outcomes are appropriate because there are underlying differences in the specific facts and circumstances. In outreach meetings users did not report any unexpected diversity in reporting revenue net versus gross among similar entities (see paragraph 74).
30. For the reasons in paragraphs 28–29, the staff think that the feedback does not indicate that the benefits to users are significantly lower than expected.

*Costs of applying the requirements*

31. The feedback to the RFI suggests that applying the concept of control and the indicators requires careful consideration of the specific facts and circumstances and can be challenging, especially in arrangements in which the indicators point to different conclusions. However, in the staff's view, the feedback does not indicate that costs of applying the requirements are significantly greater than expected for many entities.

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

32. Based on the analysis in paragraphs 21–31, the staff think that the findings from the RFI do not provide sufficient evidence that the characteristics to take further action described in the PIR framework are present. Therefore, the staff recommend the IASB:
- (a) take no further action on application matters related to the relationship between the concept of control and the indicators in paragraph B37; and
  - (b) discuss later whether to add some explanations from paragraph BC385H of the Basis for Conclusions to the Standard, along with possible clarifications of other aspects of IFRS 15. These explanations would help clarify some aspects of (a) and, combined with the other possible clarifications, might result in sufficient improvement to IFRS 15 to warrant standard-setting.

Question1 for the IASB

Do IASB members agree with the staff recommendations in paragraph 32 of this paper?

*Assessing control over services and intangible assets*

***Feedback***

33. Many respondents (mostly standard-setters, accounting firms and accounting bodies) reported challenges in assessing control over services and intangible assets in determining whether an entity acts as a principal or an agent. The respondents

expressed a view that some of the guidance on the concept of control and related indicators—such as the ‘inventory risk’ indicator— seem to apply more to tangible goods than to services and intangible assets. A few respondents, including a regulator, identified assessment of control over services and intangible assets as a major application matter.

34. A few respondents said the matter could cause diversity in practice (see also paragraph 17). For example, a preparer provided an example of a reseller who develops a user access portal which allows the end-user to access the streamed video service hosted by another entity. The respondent said that some argue that the reseller is a principal, because it controls the end-users’ access to the streaming service and has insights into the end-users’ viewing choices, which it can use for marketing to the end-user. Others argue that the reseller is an agent, because it does not control the video content and marketing insights are not a relevant indicator.
35. Many respondents suggested the IASB provide further application guidance and/or illustrative examples on how to assess control over services and intangible assets. The requests for illustrative examples mostly related to complex, highly structured arrangements in emerging, often digital, business models. Some of these arrangements involve multiple service providers. For example, respondents asked the IASB to explain how to assess control in arrangements involving:
- (a) games, mobile applications, e-books or advertising sold to end customers via online retailers;
  - (b) food, goods deliveries and car hailing platforms, including platforms selling vouchers that give the end customer the right to a merchant’s products;
  - (c) financial transactions, including crypto trading, on technology platforms; and
  - (d) resale of third-party services bundled with own services, such as telecommunications operators selling airtime services with third party streaming and other content services, or software companies selling own software licence with third party cloud services.

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36. A few respondents (mostly standard-setters) asked the IASB to clarify specific aspects of the guidance or add illustrative examples, including:
- (a) how to apply the inventory risk indicator to services or intangible assets; and
  - (b) how to understand the meaning of obtaining a legal title ‘only momentarily’ in paragraph B35 of IFRS 15, including how long the ‘momentary’ period is and whether an entity might control goods delivered directly from a supplier to a customer.
37. A few respondents suggested expanding the list of indicators to include indicators which might be more suitable for intangible goods and services. A few respondents suggested clearly linking any indicators to the concept of control and considering whether separate indicators for goods and for services might be required.
38. Suggested additional indicators included:
- (a) discretion at choosing a supplier (for example, a logistics company might not have inventory risk of purchasing transportation services in advance or a shopping mall might not purchase office maintenance services in advance—but both might choose the service provider at their own discretion);
  - (b) changing the product or performing part of a service (for example, a travel agent combines flights, hotels, hotel transfers and insurance products into a holiday package sold to a customer);
  - (c) discretion over whether the entity can consume a specified good or service itself or direct it to a third party;
  - (d) supplier’s ongoing obligations after control of goods or services is transferred to end customer (for example, accepting returns);
  - (e) credit risk, including making non-refundable advance payments to suppliers; and
  - (f) involvement of the entity in the determination of product or service specifications.

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**Staff analysis***Clarity and suitability of requirements*

39. Assessing whether an entity is a principal or an agent in relation to services and intangible assets was challenging under previous revenue recognition requirements.<sup>3</sup>
40. After IFRS 15 was issued, the TRG discussed concerns raised by various stakeholders on application of the control assessment to services or intangible assets. In April 2016 the IASB issued *Clarifications to IFRS 15* (the FASB made the same clarifications to Topic 606). The *Clarifications* improved guidance on assessing control over services and intangible assets by:
- (a) adding paragraph 34A which states that to determine the nature of its promise, the entity:
    - (i) identifies the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party); and
    - (ii) assesses whether it controls each specified good or service before that good or service is transferred to the customer;
  - (b) adding paragraph B35A which states that an entity that is a principal obtains control of any of the following:
    - (i) a good or another asset from the other party that it then transfers to the customer.
    - (ii) a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf.
    - (iii) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer. Paragraph B35A(c) also gives an example of when that

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<sup>3</sup> See paragraph BC385M of the Basis for Conclusions on IFRS 15.

would be the case—when an entity provides a significant service of integrating goods or services provided by another party into the specified good or service.

41. In addition, the IASB developed six illustrative examples to assist stakeholders with assessing control and applying the indicators, most of which relate to services (including some digital solutions). Specifically:
- (a) Example 45 (online marketplace) and Example 48 (rights to future restaurant meals) illustrate the approach to analysing arrangements involving online retailers and online platforms;
  - (b) Example 46A (office maintenance services) and Example 47 (airline tickets) illustrate judgements made by service resellers; and
  - (c) Example 48A (recruitment services) illustrates principles for analysing bundled own and resold services.
42. The illustrative examples accompanying IFRS 15 are relatively simple because they are intended to illustrate how a requirement could be applied in a variety of fact patterns. We acknowledge respondents' challenges in analysing complex transactions, but we think judgement is inherent in applying principle-based requirements.
43. In response to respondents' questions about specific aspects of the guidance in paragraph 36, the staff note that:
- (a) with regards to the application of the inventory risk indicator to services and intangible assets, paragraph B37(b) of IFRS 15 states that inventory risk exists 'if an entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract with a customer'. The application of the indicator to intangible items has been illustrated in Example 46A (office maintenance services), Example 47 (airline tickets), Example 48 (rights to future restaurant meals) and Example 48A (recruitment services).
  - (b) with respect to what is meant by 'momentarily' holding title to a good or service in paragraph B35, the staff think that entities need to exercise



judgement. In our view, it is neither feasible nor practical for the IASB to provide detailed guidance about what holding a title momentarily is because the facts and circumstances will vary from one business arrangement to another. Example 45 (online marketplace) and Example 46 (specialised equipment) illustrate how an entity might control goods delivered directly from a supplier to a customer.

44. The staff also note that many respondents said that the requirements are generally clear and sufficient and agreed with the main principles for the principal versus agent assessment (see paragraph 9).
45. For the reasons in paragraphs 39–44, the staff think that the feedback does not provide sufficient evidence to suggest that there are fundamental questions about applying the concept of control and the related indicators to services and intangible assets.

*Benefits to users of financial statements*

46. We have heard from users of financial statements about some variety in the quality of information provided on principal versus agent determinations. However, users did not report any unexpected diversity in reporting revenue net versus gross among similar entities (see paragraph 74).
47. A few other respondents suggested that there is some diversity in applying the concept of control and the indicators for services which might reduce comparability of information for users (see paragraph 34). The feedback does not suggest, however, that the diversity is pervasive. In addition, diversity in principal versus agent assessments is difficult to establish without carefully considering the terms and conditions of each arrangement.
48. For the reasons in paragraphs 46–47, the staff think that the feedback does not indicate that the benefits to users are significantly lower than expected.

*Costs of applying the requirements*

49. The staff acknowledge respondents’ widespread concerns that applying the requirements for determining control for services and intangible assets requires cost and effort and often requires consultation with experts.
50. We also note that most of the concerns raised relate to significant market developments since IFRS 15 was issued that put greater emphasis on the need to assess control of a service or intangible asset. Respondents often linked challenges to determining control in newer and emerging arrangements, often involving digital platforms and/or digital offerings. Such arrangements are becoming more complex and may frequently evolve. With increasing digitalisation, more entities may struggle to apply the requirements consistently and the costs of applying the requirements may increase for a broader range of stakeholders.
51. For the reasons in paragraphs 49–50, the staff think there is some evidence that the costs of applying the requirements for determining control for services and intangible assets and auditing and enforcing their application might be greater than expected.

*Prioritising the matter*

52. Based on the analysis in paragraphs 39–51, the staff think the findings from the RFI provide evidence that the third characteristic for the IASB to take further action is present.
53. To prioritise the matter, the staff considered the following factors:

<b>Factor</b>	<b>Staff comment</b>
<b>Consequences of the matter</b>	The determination of whether an entity is a principal or an agent leads to an entity recognising revenue either gross or net of amounts payable to the supplier, which would affect profit margins. In outreach meetings users commented that information about margins can significantly influence their decisions.

<p><b>Pervasiveness of the matter</b></p>	<p>With the expansion of digitalisation, complex arrangements requiring complex principal versus agent assessments are becoming more pervasive.</p>
<p><b>Ability for the IASB or the Committee to address the matter</b></p>	<p>The IASB could consider the following options for resolving the matter:</p> <ul style="list-style-type: none"> <li>(a) providing additional illustrative examples. To do this the IASB would need to do further research to establish whether it could identify some more common emerging fact patterns, for example, for cloud-based software solutions, that stakeholders find particularly challenging.</li> <li>(b) developing additional control indicators that would be more suitable for services—we received some examples of indicators to consider from respondents to the RFI (see paragraph 38).</li> </ul> <p>However, the staff are not convinced that these options would lead to significant improvement because:</p> <ul style="list-style-type: none"> <li>(a) our initial analysis suggests that respondents’ challenges are often linked to arrangements including multiple unique features, terms and conditions. Illustrative examples of specific complex fact patterns would be unlikely to help many stakeholders as the outcome could be dependent in the specific facts and circumstances. Adding new examples for emerging fact patterns might also create an expectation that illustrative examples will be regularly updated.</li> <li>(b) the IASB’s previous experience with developing control indicators suggests that it would be challenging to find indicators that would be helpful for a wide variety of situations and significantly simplify judgements. In addition:</li> </ul>

	<p>(i) only a few respondents suggested adding indicators and most of those few suggestions were for different indicators.</p> <p>(ii) some of the suggested indicators have already been considered and rejected by the IASB in developing IFRS 15 (for example, see discussion on the credit risk in paragraph BC385J of the Basis for Conclusions).</p> <p>(iii) the requirements in IFRS 15 do not preclude entities using indicators that are relevant to the control assessment in their specific facts and circumstances.</p> <p>We also note that—as pointed out by a few respondents—the challenges in making principal versus agent determinations are cross-cutting across various IFRS Accounting Standards, including IFRS 10, IFRS 16 and IFRS 9.</p>
<p><b>Costs versus benefits</b></p>	<p>Additional illustrative examples or new indicators of control would lead to disruption in practice and additional costs because multiple entities would need to review their current accounting policies.</p> <p>We also note the feedback from many stakeholders on the importance of convergence with the FASB’s Topic 606—any changes to the indicators or additional illustrative examples could lead to reduced comparability between entities applying IFRS 15 and those applying Topic 606.</p> <p>Therefore, the staff think that the benefits of any changes might not justify the costs.</p>

**Staff recommendation and question to the IASB**

54. Given the analysis in paragraphs 52–53, the staff recommend the IASB classify as low priority the application matter related to assessing control over services and intangible assets and explore the matter in the next agenda consultation.

55. The staff note that following the Third Agenda Consultation the IASB added to its research project pipeline a project on intangible assets. That project may have some interaction with the matter discussed in this section. The scope of the project on intangible assets has not been determined yet, but if the IASB decides to explore questions related to the definition of an intangible asset and its recognition criteria, the IASB's work in that project may provide additional insights into applying the concept of control for intangible assets.

#### Question 2 for the IASB

Do IASB members agree with the staff recommendation in paragraph 54 of this paper?

### ***Identifying a customer of a supplier that sells its goods or services through an intermediary***

#### Summary of IFRS 15 requirements

Paragraph 6 of IFRS 15 states that 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. A counterparty to the contract would not be a customer if, for example, the counterparty has contracted with the entity to participate in an activity or process in which the parties to the contract share in the risks and benefits that result from the activity or process (such as developing an asset in a collaboration arrangement) rather than to obtain the output of the entity's ordinary activities.

Paragraphs B34–B38 explain how an entity determines whether it is a principal or an agent when another party is involved in providing goods or services to a customer.

Paragraph BC385E of Basis for Conclusions on IFRS 15 comments on the supplier's perspective in multi-party arrangements:

An entity that itself manufactures a good or performs a service is always a principal if the entity transfers control of that good or service directly to its customer, without the involvement of another party. If the entity transfers a good or provides a service to an intermediary that is a principal in providing that good or service to an end customer

**Summary of IFRS 15 requirements**

(whether individually or as part of a distinct bundle of goods or services), the entity's customer is the intermediary.

*Feedback*

56. A few respondents (mostly accounting bodies and accounting firms) said that it is sometimes challenging to identify who the customer is, because the requirements on identifying a customer in paragraph 6 of IFRS 15 do not explain how to identify a customer in a multi-party arrangement.
57. A few respondents, including two regulators, reported challenges faced by a supplier in a multi-party arrangement in assessing who its customer is. They suggested that the IASB add guidance, illustrative examples and/or educational materials on this matter to improve consistency in practice. Specific suggestions included:
- (a) expanding on the statement in paragraph BC385E of the Basis for Conclusions on IFRS 15 and providing application guidance on how the supplier should assess whether the intermediary is a principal or an agent and thus determine who the supplier's customer is;
  - (b) developing a flow chart that would demonstrate the entire thought process when applying judgement in principal versus agent considerations; or
  - (c) providing additional guidance to link the assessment of control to the definition of a customer and place more emphasis on assessing how control is transferred between all the parties.
58. In addition, many respondents linked difficulties in accounting for consideration payable to a customer to challenges for intermediaries—in particular those providing digital platform services—in determining whether their customer is the supplier, end

consumer or both (see paragraphs 23–24 of January 2024 [Agenda Paper 6A](#)). We will explore this matter in a future paper.

### *Staff analysis*

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

59. The staff acknowledge that IFRS 15 does not include specific requirements or guidance to help a supplier determine whether its customer is the intermediary who resells the entity's goods or services or the end customer. However:
- (a) as noted by respondents, paragraph BC385E of the Basis for Conclusions on IFRS 15 discusses that the initial supplier determines whether its customer is the intermediary by assessing whether the intermediary is a principal or an agent in the arrangement.
  - (b) given that the supplier will be aware of the terms and conditions of its arrangements with the intermediary, it would be able to apply the requirements in paragraphs B34–B37 to assess whether the intermediary acts as a principal or an agent and so to identify its customer.
60. Only a few respondents raised questions about determining a supplier's customer in a multi-party arrangement. The staff think that there is insufficient evidence to suggest that there are fundamental questions about applying IFRS 15 requirements to identify a customer of the supplier.
61. We note the non-mandatory nature of the explanations in paragraph BC385E. Including such explanations in the Standard itself would increase their prominence helping entities make judgements, particularly in jurisdictions where the Basis for Conclusions is not translated. However, such amendments would have to go through due process and may not be worth doing in isolation. Before finalising the project, it might be worth considering whether to add some explanations from paragraph BC385E of the Basis for Conclusions to the Standard, along with possible clarifications of other aspects of IFRS 15. These explanations, combined with the

other possible clarifications (for example, those in paragraph 27 of this paper and paragraph 31 of Agenda Paper 6A), might result in sufficient improvement to IFRS 15 to warrant standard-setting. We can return to this suggestion in a future paper.

***Benefits to users***

62. Who a supplier identifies as its customer could affect the amount of revenue recognised (for example, see item 1 in Appendix A). However, the feedback on the RFI does not provide evidence that the matter is prevalent or that there is diversity in relation to this application matter. Therefore, the staff think the feedback does not indicate that the benefits to users are significantly lower than expected.

***Costs of applying the requirements***

63. Identifying its customer would require a supplier to consider all relevant facts and circumstances, including the terms and conditions of its contract with an intermediary. The staff think that the feedback does not indicate that for most suppliers costs of making such judgements are significant.

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

64. Based on the analysis in paragraphs 59–63, the staff think the findings from the RFI do not provide sufficient evidence that the characteristics to take further action described in the PIR framework are present. Therefore, the staff recommend the IASB:
- (a) take no further action on the application matter raised by respondents in relation to identifying a customer of a supplier that sells its goods or services through an intermediary.
  - (b) discuss later whether to add some explanations from paragraph BC385E of the Basis for Conclusions to the Standard, along with possible clarifications of other aspects of IFRS 15. These explanations would help clarify some aspects



of (a) and, combined with the other possible clarifications, might result in sufficient improvement to IFRS 15 to warrant standard-setting.

#### Question 3 for the IASB

Do IASB members agree with the staff recommendations in paragraph 64 of this paper?

### ***Identifying performance obligations***

#### Summary of IFRS 15 requirements

Paragraph B34 of IFRS 15:

- (a) requires an entity to determine whether it is a principal or an agent for each specified good or service promised to the customer;
- (b) explains that a specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer;
- (c) refers to paragraphs 27–30 that provide guidance on the notion of ‘distinct’; and
- (d) states that if a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

### ***Feedback***

65. A few respondents (mostly standard-setters from Asia-Oceania and Africa) said that it is sometimes challenging to identify performance obligations—and particularly specified goods and services—in arrangements involving multiple parties. For example, it can be challenging when an entity combines various components to provide something to the end customer or when an entity partners with, or subcontracts to, others to provide digital services such as internet advertising or payment processing.
66. The respondents suggested the IASB provide application guidance, illustrative examples and/or educational materials to help entities identify performance

obligations. An accounting firm suggested clarifying the interaction between the requirements on specified goods or services in the application guidance on principal versus agent considerations with the requirements for identifying performance obligations in paragraphs 22–30 of IFRS 15.

### *Staff analysis*

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

67. Respondents did not provide much detail on challenges in identifying performance obligations in arrangements involving principal versus agent considerations. Those examples that were given related to determining whether a good or a service is distinct in a bundle combining multiple components. Paragraphs 22–31 of Agenda Paper 6A provide staff’s analysis of applying the notion of ‘distinct’. We think these considerations would be applicable for matters raised for multiple-party arrangements.
68. In addition, the Committee’s May 2022 Agenda Decision [\*Principal versus Agent: Software Reseller\*](#) illustrates how IFRS 15 requirements are applied in identifying the specified goods or services to be provided by the customer in the specific fact pattern.
69. For the reasons in paragraphs 67–68, the staff think that the feedback did not provide sufficient evidence to suggest that there are fundamental questions about IFRS 15 requirements for identifying performance obligations in multiple-party arrangements.

#### ***Benefits to users***

70. Inappropriately identifying the specified goods or services in a contract can have an effect on whether revenue is recognised gross or net, so it can affect the usefulness of information for users of financial statements.
71. However, the feedback on the RFI does not provide evidence that the matter is prevalent or that there is significant diversity in respect to this application matter. Therefore, the staff think the feedback does not indicate that the benefits to users are significantly lower than expected.

***Costs of applying the requirements***

72. Identifying the specified goods or services and an entity's performance obligations in a multi-party arrangement requires an entity to consider all relevant facts and circumstances and may be challenging for more complex arrangements. The staff think that the feedback to the RFI does not indicate that the costs of making such judgements for most entities are significant.

***Staff recommendation and question to the IASB***

73. Based on the analysis in paragraphs 67–72, the staff think the findings from the RFI do not provide sufficient 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 the application matter raised by respondents in relation to identifying performance obligations in a multi-party arrangement.

**Question 4 for the IASB**

Do IASB members agree with the staff recommendation in paragraph 73 of this paper?

***Disclosure requirements***

**Summary of IFRS 15 requirements**

Paragraph 110 of IFRS 15 sets out the objective of the disclosure requirements which is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity is required to disclose qualitative and quantitative information about all of the following:

- (a) its contracts with customers;
- (b) the significant judgements, and changes in the judgements, made in applying this Standard to those contracts; and
- (c) any assets recognised from the costs to obtain or fulfil a contract with a customer.

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*Feedback*

74. During our outreach and in their comment letters, users generally did not report significant issues with information disclosed about judgements made in principal versus agent determinations although they said that the quality of disclosures varied and some entities provide boilerplate disclosures. In outreach meetings users did not report any unexpected diversity in reporting revenue net versus gross among similar entities.
75. To improve the usefulness of information a few users and accounting firms suggested requiring entities to disclose:
- (a) revenue recognised on a gross basis and revenue recognised on a net basis if an entity acts as a principal and as an agent in different transactions;
  - (b) factors an entity considered when concluding whether it is a principal or an agent in an arrangement;
  - (c) for principals—revenue that would have been presented if the entity concluded it was an agent; for agents—revenue that would have been presented if the entity concluded it was a principal.

*Staff analysis****Clarity and suitability of the requirements***

76. IFRS 15 provides no specific disclosure requirements for principal versus agent assessments. However, paragraph 110(b) requires an entity to disclose the judgements, and changes in the judgements, made in applying the Standard that significantly affect the determination of the amount and timing of revenue from contracts with customers. If an entity's judgement on whether it is a principal or an agent significantly affects the amount of revenue—which can often be the case because it determines whether revenue is recognised gross or net—such judgements need to be disclosed.

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77. We note suggestions for specific requirements in paragraph 75. However, in addition to the observation in paragraph 76:
- (a) the guidance on disclosure of disaggregated revenue in paragraph B89 of IFRS 15 includes sales channels (for example, goods sold directly to consumers and goods sold through intermediaries) as an example of categories for disaggregating revenue information. This is effectively the disclosure suggested in paragraph 75(a). If this information is significant, we would expect it to be provided to meet the objective for disclosing disaggregated information in paragraph 114 of IFRS 15.<sup>4</sup>
  - (b) the suggestion in paragraph 75(c) would require entities to disclose hypothetical information about revenue of a principal had it been an agent and vice versa. In the staff's view a requirement to disclose hypothetical amounts is unlikely to be in line with the objective of the disclosure requirements in paragraph 110 of IFRS 15. Complying with such a disclosure requirement might be complex and costly for preparers.
78. In the staff's view, based on the analysis in paragraphs 76–77, the disclosure requirements in IFRS 15 provide sufficient guidance to provide information about arrangements that involve principal versus agent considerations.

***Benefits to users of financial statements***

79. As mentioned in paragraph 74, users generally did not express significant concerns about information disclosed about judgements made in principal versus agent determinations. However, some said the quality of disclosed information varied with some entities providing boilerplate information.
80. Based on the analysis in paragraph 76, we think that any lack of information may be due to poor compliance rather than from any deficiency in the IFRS 15 requirements.

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<sup>4</sup> Paragraph 114 states that an entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

81. The staff think there is no evidence to suggest that benefits to users could be significantly improved by amending the disclosure requirements in IFRS 15.

***Costs of applying the requirements***

82. The feedback on the RFI does not suggest that the costs of meeting the disclosure requirements in respect of principal versus agent determinations are significant.

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

83. Based on the analysis in paragraphs 76–82, the staff think the findings from the RFI do not provide any evidence that the characteristics to take further action described in the PIR framework are present. Therefore, we recommend the IASB take no action in respect to the disclosure requirements relating to principal versus agent considerations.

Question 5 for the IASB

Do IASB members agree with the staff recommendation in paragraph 83 of this paper?

Question 6 for the IASB

As explained in paragraph 15, the staff recommend taking no action in relation to the matters discussed in Appendix A. Do you agree with the staff recommendation?

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

	Application matter	Staff response
1	<p>A few respondents (mainly standard-setters and accounting firms) said that for an entity that sells goods or services via an intermediary and concludes it is acting as principal, the requirements to recognise as revenue the gross amount that the intermediary charges to end customer is difficult to apply. They said it is not always feasible for the entity to estimate the gross amount, for example in the telecommunications, online gaming, advertising and airline industries.</p> <p>A few respondents asked the IASB to provide guidance on this matter and noted that the FASB explains in the Basis for Conclusions on FASB ASU 2016-08 that ‘the difference between the amount to which the entity is entitled from the intermediary and the amount charged by the intermediary to the end customer is not variable consideration and, therefore, is not part of the entity’s transaction price’.<sup>5</sup></p>	<p>The staff recommend taking no action because:</p> <ol style="list-style-type: none"> <li>a. we have not received sufficient evidence of the matter becoming pervasive. Therefore, the IASB reasons for not providing clarifications or additional guidance in paragraph BC385E remain valid (In the IASB’s view the situations in which an entity that is a principal may be unaware of the amount charged to end customers by an intermediary that is an agent are generally limited and is expected to affect a limited number of entities and contracts).</li> <li>b. the clarification mentioned by the respondents is included only in the FASB’s Basis for Conclusions. Similar to the IASB, the FASB did not add any clarifications to the Standard on the matter, because, as it stated in paragraph BC38 of the Basis for Conclusions on FASB ASU 2016-08, the issue is not pervasive and affects a limited number of entities and contracts.</li> </ol>

<sup>5</sup> See paragraph BC38 of the Basis for Conclusions on [FASB ASU 2016-08](#), Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net).

2	A few respondents (mostly standard-setters) suggested the IASB add guidance on how to determine who is the principal and who is the agent when a contract is signed by a parent and services are performed by its subsidiary.	Accounting would depend on the facts and circumstances, including the terms and conditions of the contract. The staff suggest no action because the feedback does not suggest the matter is widespread or that it significantly affects the usefulness of information to users.
3	A few respondents suggested the IASB add guidance, a flow chart and/or illustrative examples on how an entity considers economic risk. For example, in healthcare industry all the economic risk is often borne by one party, therefore it is unclear if the entity is the principal while all other parties are agents based on the economic risk factor.	The staff suggest no action because IFRS 15 does not require an entity to consider economic risk in determining whether it is a principal or an agent (although it does not preclude the entity from considering economic risk if it would be relevant to the assessment of control).
4	One standard-setter suggested the IASB clarify how to allocate a discount if an entity is a principal for some goods and an agent for other goods in a contract.	The staff suggest no action. An entity would need to apply judgement in applying the requirements for allocation of discounts in paragraphs 81-83 of IFRS 15.
6	One standard-setter said there is diversity in practice in determining whether an entity recognises revenue from selling a good gross or net of raw materials provided by the customer, if the customer delivers homogenous raw materials after the entity manufactured the goods from the entity's own raw materials and delivered those goods to the customer.	The staff suggest no action because limited feedback does not suggest the matter is widespread or that its effect is substantial.





## Appendix B—FASB PIR of Topic 606: Extracts from the November 2023 Public Roundtable discussion materials and minutes<sup>6</sup>

### Discussion materials

#### Area F: Principal versus Agent

46. Stakeholders told the staff that the principal versus agent guidance is complex, challenging to apply, and requires significant judgment. Given the complex nature of the guidance, auditors and regulators observed that this area remains a frequent area of consultation. Furthermore, investors noted that it is difficult to understand the judgments applied by seemingly similar entities (for example, industry competitors), especially when those entities arrive at different principal versus agent conclusions.

47. When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). In order to determine if an entity is a principal (and, therefore, recognizes revenue in the gross amount of consideration to which it expects to be entitled) or an agent (and, therefore, recognizes revenue in the amount of any fee or commission to which it expects to be entitled), Topic 606 requires that an entity assess whether it controls the specified good or service before it is transferred to the customer. Topic 606 includes guidance on how the control principle applies to certain types of arrangements and a list of control indicators to assist an entity with its evaluation.

48. The previous revenue guidance in Topic 605 also required a principal versus agent assessment and included a list of indicators that were used to evaluate whether an entity was the principal or agent for a given transaction. Therefore, under both Topic 606 and Topic 605, the staff noted that the assessment to determine whether an entity is a principal or agent requires significant judgment. However, Topic 605 indicators focused on risks and rewards rather than control and, accordingly, some entities may have changed their presentations upon the adoption of Topic 606. Additionally, the Board issued Accounting Standards Update No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross or Net), to clarify the guidance by better linking the control principle and the list of indicators (which were originally included in Update 2014-09).

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<sup>6</sup> See November 2023 Public Roundtable [Discussion Materials](#) and [Meeting Minutes](#).

49. The staff conducted outreach and research on this topic as part of its PIR process and identified that emerging business models and transactions were most frequently noted by stakeholders as having challenging principal versus agent assessment. The staff notes that there are increased complexities associated with those emerging business models that arise from of the speed and development of new technologies and increased alliances among multiple parties for individual arrangements. Accordingly, the staff believes that the increased complexities, based on the individual facts and circumstances of the arrangement, result in continued challenges for stakeholders to analyze, understand, and account for those arrangements in a timely manner. Some examples of those arrangement include managed healthcare, payment processing, online marketplaces, professional service platforms, and other online platform providers.

50. In addition, the guidance in Topic 606 is principles based and inherently requires judgment in its application based on an entity's individual facts and circumstances, although this area also required significant judgment and was challenging under Topic 605. Given the complexity of some of the arrangements discussed above, applying the guidance could lead to differing conclusions on the principal versus agent assessment, based on factors such as the identification of the performance obligations, the roles and responsibilities of each party to the transaction, and how the end customer is identified.

## Minutes

### Principal versus Agent Considerations

Participants observed that principal versus agent considerations remain a challenging area that requires judgment in applying the guidance to assess new and complex arrangements, such as arrangements that contain digital assets or intangible items. Participants noted that arrangements are difficult to assess when they include more than three parties and in cases in which contractual relationships do not exist between all of the parties. Participants noted that this area was complex before Topic 606 and emphasized that significant changes to Topic 606 are not needed. However, participants provided suggestions to potentially ease the implementation challenge in this area, such as adding more illustrative examples or implementation guidance for emerging arrangements, improving the indicator guidance, or requiring additional disclosures.