Staff paper

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IASB® meeting

Date	**March 2024**
Project	**Post-implementation Review of IFRS 15**
Topic	**Determining the transaction price**
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Purpose and structure

1. As discussed in January 2024 Agenda Paper 6A, 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), respondents commented on:
   (a) consideration payable to a customer;
   (b) variable consideration;
   (c) sales-based taxes;
   (d) non-cash consideration; and
   (e) significant financing component.
2. This paper:
   (a) provides preliminary staff analysis of the feedback related to consideration payable to a customer. We are not asking the IASB for any decisions on this matter at this meeting, but welcome comments and questions for further

analysis. The staff will consider IASB members' comments when preparing the analysis and recommendations for the IASB in a future paper.

(b) includes analysis of the feedback related to variable consideration, sales-based taxes and non-cash consideration and provides staff recommendations on these matters. At this meeting, the IASB will be asked to decide whether to take further action on these matters applying its framework for responding to the matters identified in a post-implementation review (PIR).[1]

(c) excludes comments received in relation to significant financing component—this topic will be analysed in a future paper because it has some interaction with the feedback on applying IFRS 15 with other IFRS Accounting Standards.

3. This paper provides:

(a) summary of staff recommendations;

(b) background to IFRS 15 requirements on determining the transaction price;

(c) overview of the feedback; and

(d) summary of the feedback and staff analysis of specific application matters.

Summary of staff recommendations

4. Based on the analysis in this paper, the staff recommend the IASB take no further action on the matters related to:

(a) variable consideration;

(b) sales-based taxes;

(c) non-cash consideration; and

(d) other aspects of determining the transaction price included in Appendix A.

[1] See Agenda Paper 6 for the framework.

Background

5. IFRS 15 provides more comprehensive requirements on determining the transaction price compared to previous revenue recognition requirements. It defines the transaction price as the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding the amounts collected on behalf of third parties (for example, some sales taxes). The Standard provides specific requirements for determining the transaction price if consideration includes a variable amount, a significant financing component, non-cash consideration or any consideration payable to a customer.

6. IFRS 15 requirements on determining the transaction price are largely converged with the requirements in the FASB ASC, Topic 606 Revenue from Contracts with Customers.

Overview of the feedback

7. Most respondents commented on some aspects of determining the transaction price. Many respondents (mostly standard-setters and accounting bodies) said that generally IFRS 15 provides a clear and sufficient basis to determine the transaction price in a contract, but they identified some specific application matters. The RFI included an explicit question on application challenges in relation to consideration payable to a customer and most of the feedback was on this matter. In addition, respondents provided comments on:

   (a) variable consideration;

   (b) sales-based taxes;

   (c) non-cash consideration; and

   (d) significant financing component (as mentioned in paragraph 2, we will provide analysis of comments on this topic in a future paper).

Summary of the feedback and staff analysis of specific application matters

8. In this section the staff provide analysis of feedback related to:

   (a) consideration payable to a customer;

   (b) variable consideration;

   (c) sales-based taxes; and

   (d) non-cash consideration.

9. 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 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).

10. In addition, 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.

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

(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:

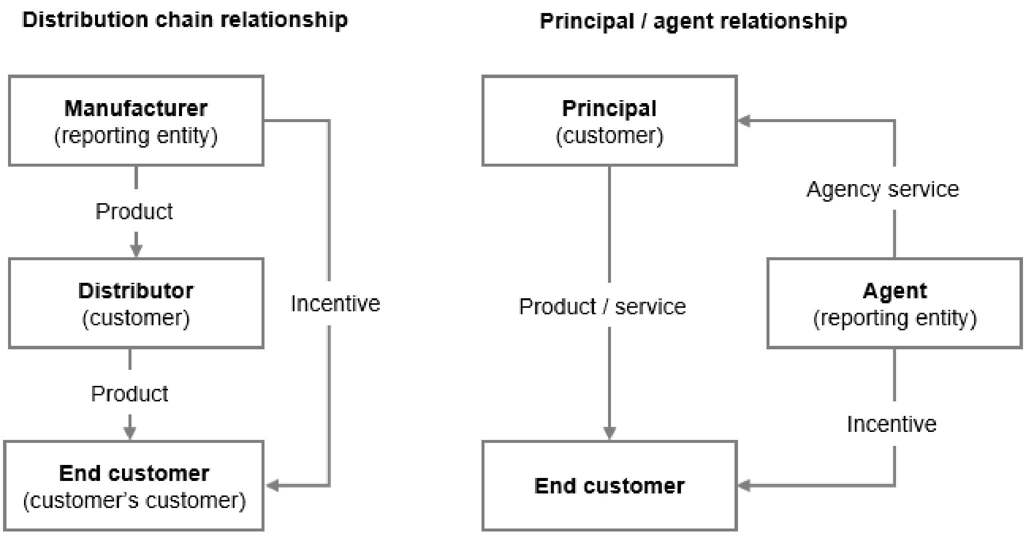
(a) whether the agent can treat the end customer as its customer; and

(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.[2] That is a reporting entity that is an agent *might* view both the principal and the end customer as customers in the arrangement.

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.

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

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.[3] 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 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'.

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

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.[4]

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.

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

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.

Prioritising the matter

40. Based on the analysis in paragraphs 19–39, the staff think that the findings from the RFI provide evidence that the characteristics for the IASB to take further action related to clarity and sufficiency of the requirements and to costs are present.

41. To prioritise the matter, the staff considered the following prioritisation characteristics:

Prioritisation characteristic	**Staff comment**
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.
Pervasiveness of the matter	Matters related to consideration payable to customers were raised by many respondents. As noted in paragraphs 12 and 16, there are some indications that the main matters often relate to arrangements involving digital platforms that are becoming more common. However, a few respondents indicated that the cases of 'negative' revenue are not common in their jurisdictions.
Ability of the IASB or the Committee to address the matter	The IASB could consider the following options for resolving the matters: (a) providing application guidance to clarify: (i) whether, and if so how, an agent could determine that an end customer is its customer; (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 (iii) whether, and if so in what circumstances, an entity should reclassify 'negative' revenue and present it as an expense; or (b) including in IFRS 15 specific disclosure requirements related to consideration payable to customers. For example, the IASB could consider requiring an entity to disclose: (i) the amount of consideration payable to customers/end customers and deducted from revenue or recognised as expenses; and (ii) the amount of consideration payable to a customer that exceeds the consideration expected to be received from that customer.
Costs versus benefits	Providing additional application guidance would lead to disruption in practice and additional costs because multiple entities would need to

	review their current accounting policies. Any changes to the guidance could also lead to reduced comparability between entities applying IFRS 15 and those applying Topic 606. Providing additional disclosure requirements is likely to cause less disruption in practice 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.

42. The framework for prioritising matters 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.

43. The staff think the analysis of prioritisation characteristics in paragraph 41 may lead to 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. This would affect whether the matters are categorised as medium priority or low priority.

44. In its March 2024 meeting, the Accounting Standards Advisory Forum (ASAF) will discuss the PIR of IFRS 15. ASAF members will provide their views on the topics discussed by the IASB in its February-March 2024 meetings. The staff will consider ASAF members' views as well as IASB members' comments at this meeting in deciding whether to recommend characterising matters related to accounting for consideration payable to a customer as medium priority or low priority.

Question for the IASB

Question 1 for the IASB
Do IASB members have comments or questions on the analysis in paragraphs 19–44 of this paper?

Variable consideration

Summary of IFRS 15 requirements

If the consideration promised in a contract includes a variable amount, paragraph 50 of IFRS 15 requires an entity to estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

Based on paragraph 53, variable consideration is estimated using either the expected value or the most likely amount method—depending on which method the entity expects to better predict the amount of consideration to which it will be entitled.

Paragraphs 56–57 set out requirements for constraining estimates of variable consideration:

(a) some or all of the estimated amount of variable consideration is included in the transaction price only to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(b) in assessing whether a significant reversal is highly probable, an entity considers both the likelihood and the magnitude of the revenue reversal.

(c) factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

    (i) the amount of consideration is highly susceptible to factors outside the entity's influence;

    (ii) the uncertainly about the amount of consideration is not expected to be resolved for a long period of time;

Summary of IFRS 15 requirements

(iii) the entity's experience (or other evidence) with similar types of contracts is limited or has limited predictive value;

(iv) the entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances; and

(v) the contract has a large number and broad range of possible consideration amounts.

Paragraph 59 requires an entity to update the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) at the end of each reporting period to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Feedback

45. Some respondents (mainly standard-setters) reported challenges related to applying the requirements on accounting for variable consideration.

46. The main reported challenges related to:

(a) estimating the amount of variable consideration in some circumstances—for example, when no historical information is available, the amount is highly uncertain, there is a need to track performance over long periods and/or when an entity has many transactions with discounts, refunds or other forms of variable consideration. A few respondents said that the high degree of judgement required to make estimates in such circumstances leads to diversity in practice.

(b) applying the requirements for constraining estimates of variable consideration. Specifically, respondents reported challenges and diversity in applying the 'highly probable that a significant reversal … will not occur' threshold—for example, in the construction, asset management, software and oil and gas industry. A few respondents questioned whether the constraint is working as intended because in some cases entities:

(i) make extremely conservative judgements and on initial recognition constrain the amount of variable consideration to zero—for example, when the amount of consideration is highly susceptible to factors outside the entity's control and is subject to significant outcome and measurement uncertainty; and/or

(ii) do not regularly reassess variable consideration and only update the transaction price when the uncertainty is resolved or when an invoice is issued rather than when it is highly probable that a significant reversal will not occur.

47. A few standard-setters said some of their stakeholders questioned whether the high probability threshold for the constraint conflicts with the neutrality principle in the *Conceptual Framework for Financial Reporting*. However, they noted that in developing the Standard the IASB decided that the downward bias was reasonable because users of financial statements indicated that revenue is more relevant if it is not expected to be subject to significant future reversals.[5]

48. Most of those reporting the challenges in paragraph 46 suggested the IASB provide additional application guidance and/or illustrative examples (including industry-specific examples) to help entities apply the requirements. A few respondents asked the IASB to clarify whether applying extreme conservatism in applying the constraint is appropriate. A few respondents suggested simplifying the language used to describe the constraint.

49. The FASB also identified challenges in accounting for variable consideration as a major application matter. Appendix B provides more information of the FASB's findings on this matter.

[5] See paragraph BC207 of the Basis for Conclusions on IFRS 15.

Staff analysis

Clarity and suitability of the requirements

50. Matters related to estimating variable consideration are not new. Estimating variable consideration inherently requires the exercise of judgement, especially in conditions of high uncertainty. The feedback received on challenges in estimating variable consideration and applying the constraint often related to specific, often long-term contracts with high levels of outcome and measurement uncertainty—we would expect judgements for such contracts to be more challenging.

51. Respondents did not provide any suggestions for improving or clarifying the requirements on estimating variable consideration. The staff was unable to identify any improvements that would make the estimation guidance significantly easier to apply. Providing illustrative examples as requested by respondents is unlikely to benefit a broad range of stakeholders and may lead to disruption in practice as many entities would need to review their current accounting policies.

52. In response to respondents' concerns related to the guidance on constraining estimates of variable consideration, the staff note that:

    (a) the 'highly probable' threshold used in IFRS 15 had already been used in IFRS Accounting Standards. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* defined probable as 'more likely than not', and 'highly probable' as 'significantly more likely than probable'.

    (b) to help entities apply the threshold, paragraph 57 of IFRS 15 provides guidance on factors that could increase the likelihood and the magnitude of a revenue reversal.

    (c) paragraph BC207 of the Basis for Conclusions explains the IASB's reasons for the downward bias in the variable consideration constraint. However, the constraint was not intended to limit the amount of variable consideration to nil—some or all of the estimate of variable consideration is included in the transaction price if it meets the objective of the requirements for constraining the estimates of variable consideration.[6]

(d) paragraph 59 of IFRS 15 already requires an entity to update the estimate of variable consideration, including the constraint, at the end of each reporting period. The staff note that a few respondents provided examples of entities not regularly reassessing the estimates, but we think the Standard is sufficiently clear that reassessment is required.

53. We also note that the feedback on matters related to variable consideration was received from a relatively small number of respondents. This may suggest that despite initial challenges most entities have developed accounting policies for estimating variable consideration.

54. For the reasons discussed in paragraphs 50–53, the staff think that the feedback provides insufficient evidence that there are fundamental questions about the clarity and suitability of the IFRS 15 requirements on variable consideration.

Benefits to users

55. Respondents reported some diversity in judgements in estimating variable consideration and applying the constraint. Such diversity might reduce the comparability of the resulting information for users of financial statements. However, some of this diversity might be due to the varying and complex nature of the underlying contracts. There is also some evidence that some of the diversity is due to inappropriate application of the requirements rather than deficiencies in the requirements.

56. Paragraph 126 of IFRS 15 requires entities to disclose information about the methods, inputs and assumptions used for estimating variable consideration and assessing whether the estimate is constrained—this information is intended to help users

[6] See paragraph BC218 of the Basis for Conclusions on IFRS 15.

understand variable consideration estimates and use them in their forecasts. In our outreach with users, we have not heard concerns relating to variable consideration.

57. For the reasons discussed in paragraphs 55–56, the staff think that the feedback provides insufficient evidence that the benefits to users of financial statements of information resulting from variable consideration requirements are significantly lower than expected.

Costs of applying the requirements

58. The staff acknowledge respondents' concerns that applying variable consideration requirements requires significant judgement and analysis and so potentially can be costly. However, the feedback suggests that the concerns relate to specific challenging fact patterns and that for most contracts accounting policies have been developed.

59. For the reasons discussed in paragraph 58, the staff think that the feedback provides insufficient evidence that the costs of applying the requirements are significantly greater than expected.

Staff recommendation and question for the IASB

60. Based on the analysis in paragraphs 50–59, 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 variable consideration.

Question 2 for the IASB
Do IASB members agree with the staff recommendation in paragraph 60 of this paper?

Sales-based taxes

Summary of IFRS 15 requirements
Paragraph 47 of IFRS 15 defines the transaction price as the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes).

Feedback

61. Some respondents (mostly accounting firms and standard-setters) said that IFRS 15 provides insufficient guidance on accounting for sales-based taxes. They expressed a view that the principal versus agent guidance which is often used to account for sales-based taxes is not suitable for determining whether an entity is responsible for paying the tax itself (and so should include the tax in the transaction price) or is collecting the tax on behalf of the tax authority (and so should exclude it from the transaction price).[7] In their view:

    (a) the principal versus agent guidance focuses on whether an entity takes control of the underlying good or service before transferring it to the customer. This assessment is different from the assessment of whether the tax amount is collected on behalf of third parties, and the guidance does not work well because the transaction with the tax authority is a non-reciprocal transaction—the tax authority never takes control of underlying goods or services.

    (b) the indicators in paragraph B37 of IFRS 15 are challenging to apply, for example, when indicators point to different conclusions. A few preparers said it is challenging because the credit risk indicator which is, in their view, the most relevant for this assessment was removed from the previous revenue standard.

[7] In 2014, Transition Resource Group (TRG) discussed that an entity would apply the principal versus agent guidance by analogy when it is unclear whether the amounts are collected on behalf of third parties.

62. A few respondents said it can be challenging and costly to assess each tax on a jurisdiction-by-jurisdiction basis.

63. A few respondents identified 'sales-based taxes' as a major application matter.

64. A few respondents (mostly standard-setters) reported diversity in practice in accounting for sales-based taxes between entities in the same industry within the same market, for example, in relation to excise taxes on alcoholic beverages, fuel and tobacco.

65. A few respondents (mostly standard-setters) said that the impact on the financial statements is significant and said that, in many cases, entities provide alternative performance measures such as the amount of excise taxes deducted from revenue alongside revenue recognised applying IFRS 15. An accounting firm said that entities typically do not provide a clear disclosure about how the underlying assessment has been performed.

66. In outreach meetings with users, we received little feedback on the matter—this may, in part, be because it was not included in the RFI. One user said that there is diversity in accounting for excise taxes in the tobacco industry—some entities present revenue gross and deduct excise taxes as an expense, while others present revenue net of excise taxes. The user did not raise significant concerns about this diversity because, in their experience, typically the amount of excise taxes is disclosed, enabling users to prepare their valuation models.

67. Respondents' suggestions included:

(a) requests for illustrative examples and/or application guidance to help entities assess whether sales-based taxes are collected on behalf of third parties, for example, how to consider credit risk and the intention and underlying characteristics of the tax;

(b) specific suggestion for application guidance for sales-based taxes:

(i) if the tax is on production or importation, tax is not deducted from the transaction price because the tax is not triggered by a contract with a customer; and

(ii) if the tax is incurred as a consequence of the sales, tax is deducted from the transaction price.

(c) consider the FASB's amendment to Topic 606 which allows an entity to make an accounting policy election to exclude certain taxes assessed by a government from the transaction price.[8] An accounting firm also suggested specifically requiring an entity to disclose the amount of tax when an entity chooses to include taxes paid in revenue. However, a few other respondents argued against including the FASB amendment because an accounting policy choice would reduce comparability.

Staff analysis

Clarity and suitability of the requirements

68. Matters related to accounting for sales-based taxes are not new—the matters were discussed by the TRG and similar requirements were included in paragraph 8 of IAS 18 *Revenue*.[9] The discussion of the TRG focused on the definition of transaction price and the application of the principal versus agent guidance. The TRG staff analysis suggested that taxes are generally an obligation to a governmental authority, rather than to a customer; therefore, the principal versus agent guidance is applied *by analogy*.[10] TRG members concluded that the new revenue standards provide sufficient guidance to determine the gross or net presentation of amounts billed to customers.

[8] The FASB added paragraph 606-10-32-2A as part of FASB ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. An entity is allowed to make an accounting policy election to exclude from the transaction price all taxes assessed by governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected from a customer (for example, sales taxes, use taxes, value added taxes and some excise taxes). Taxes assessed on an entity's total gross receipts or imposed during the inventory procurement process are excluded from the scope of the election.

[9] Paragraph 8 of IAS 18 *Revenue* required an entity to exclude amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes from revenue.

[10] See July 2014 TRG Agenda ref 2 *Gross versus Net Revenue*.

69. However, the FASB added the practical expedient mentioned in paragraph 67(c) to address stakeholders' concerns regarding the cost and complexity of assessing tax laws in each jurisdiction in which an entity operates, noting that the laws in some jurisdictions are unclear about which party to the transaction is primarily obligated for payment of the taxes.[11] Similar to the FASB's previous revenue Standard, the FASB added to Topic 606 an accounting policy election that permits an entity to exclude amounts collected from customers for all sales and similar taxes from the transaction price.

70. In discussing whether to take action on this matter, the IASB considered the staff arguments that:

    (a) the matter is not an interpretative question, but rather a concern expressed by some U.S. stakeholders about the cost and complexity of making assessments.

    (b) IFRS 15 has a clear principle with respect to sales taxes. They are excluded from the determination of the transaction price if the entity has collected them on behalf of tax authorities. That principle is intended to provide consistency in the measurement of revenue across entities under different tax regimes in different jurisdictions.

    (c) in some cases, judgement will be required to determine whether a particular sales tax is collected on behalf of the tax authorities.[12]

71. The IASB decided not to provide a similar accounting policy choice, because:

    (a) it would reduce the comparability of revenue between entities operating under different tax regimes in different jurisdictions, as well as between entities operating in the same jurisdictions.

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[11] See paragraph BC188B of the Basis for Conclusions on IFRS 15.

[12] See March 2015 Agenda Paper 7B *Sales Tax Presentation: Gross versus Net*.

(b) IAS 18 contained requirements applicable to sales tax similar to those in IFRS 15. Assessing whether sales taxes are collected on behalf of a third party is not a new requirement for preparers applying IFRS Accounting Standards.

(c) it would create an exception to the revenue recognition model that does not reflect the economics of the arrangement in cases for which a sales or similar tax is a tax on the entity.[13]

72. The staff think the arguments in paragraphs 70–71 are still valid. The staff acknowledge that the application of the principle for including or excluding sales-based taxes from the transaction price could require significant judgement, however, judgement is inherent in principle-based Standards. Applying the principal versus agent guidance by analogy might be helpful in making that judgement. Comments received from respondents indicate that there is some understanding in the market of how to assess whether an entity is collecting tax on behalf of third parties.

73. The staff note respondents' requests for additional illustrative examples and application guidance. In our view:

(a) illustrative examples are most useful when they illustrate how an entity applies a specific requirement or principle in a fact pattern that can be applied broadly. Adding additional examples based on specific sales-based taxes would be unlikely to help many stakeholders as the outcome would be dependent on the specific characteristics of the tax and facts and circumstances of the entity's transaction.

(b) adding specific application guidance could reduce diversity but would still require judgement and careful consideration of the facts and circumstances of the transaction.

[13] See BC188D of the Basis for Conclusions on IFRS 15.

(c) additional illustrative examples and application guidance could also lead to disruption in practice and additional costs because many entities would need to review their current accounting policies.

74. For the reasons discussed in paragraphs 68–73, the staff think the feedback to the RFI provides insufficient evidence to suggest that there are fundamental questions about the clarity and suitability of the principle for determining how to account for sales-based taxes or that the requirements are not working as intended.

Benefits to users of financial statements

75. As mentioned in paragraphs 64–66, there is some evidence to suggest that the amounts involved can be material and that there is some diversity in practice. That diversity could affect the usefulness of information for users as it would affect the comparability of margins. However, we have insufficient information to suggest user concerns are prevalent:

(a) as mentioned in paragraph 66, the user said that concern is not significant because, in their experience, entities provide additional tax amount information for the valuation model; and

(b) as mentioned in paragraph 65, a few respondents said that entities already tend to provide additional information about sales-based tax to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows.

76. For the reasons discussed in paragraph 75, the staff think that the feedback provides insufficient evidence that the benefits to users of financial statements of the information resulting from accounting for sales-based taxes are significantly lower than expected.

Costs of applying the requirements

77. As mentioned in paragraph 62, a few respondents said that it is costly to assess each tax on a jurisdiction-by-jurisdiction basis. These respondents suggested including the practical expedient of Topic 606.

78. The staff think the IASB's reasons for not including the practical expedient are still valid. Further, we think that it is likely that entities have already developed accounting policies related to sales-based taxes. Consequently, costs would be more likely to relate to new arrangements or to changes in facts and circumstances including tax regimes.

79. For the reasons discussed in paragraphs 77–78, the staff think that the feedback provides insufficient evidence that the costs of applying the requirements are significantly greater than expected.

Staff recommendation and question for the IASB

80. Based on the analysis in paragraphs 68–79, 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 sales-based taxes.

Questions 3 for the IASB
Do IASB members agree with the staff recommendation in paragraph 80 of this paper?

Non-cash consideration

Summary of IFRS 15 requirements

Paragraph 66 states that non-cash consideration is measured at fair value.

Paragraph 68 states that the fair value of the non-cash consideration may vary because of the form of the consideration (for example, a change in the price of a share to which an entity is entitled to receive from a customer). If the fair value of the non-cash consideration promised by a customer varies for reasons other than only the form of the consideration (for example, the fair value could vary because of the entity's performance), an entity shall apply the requirements on constraining estimates of variable consideration in paragraphs 56–58.

Feedback

81. A few respondents (mainly standard-setters) suggested there is a lack of clarity on accounting for non-cash consideration (including when non-cash consideration is payable to a customer).

82. The main issue relates to the date of measurement of non-cash consideration. Two standard-setters from Asia reported diversity in practice—with some entities measuring the non-cash consideration at contract inception, some when the consideration is received and others when the related performance obligation is satisfied. Most of the respondents commenting on the matter suggested the IASB consider the FASB's amendments to Topic 606 which require non-cash consideration to be measured at contract inception.[14]

83. Two standard-setters suggested the IASB add guidance on accounting for changes in the fair value of non-cash consideration after initial recognition. One of them suggested the IASB clarify whether the variable constraint requirements apply if changes in non-cash consideration arise both because of the form of the consideration

[14] See FASB ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.

and other reasons. The respondents suggested the IASB consider the FASB's amendments to Topic 606 which clarify that:

(a) changes in the fair value of non-cash consideration after contract inception that are due to the form of the consideration are not included in the transaction price; and

(b) if the fair value of the non-cash consideration varies because of the form of the consideration and for other reasons, an entity applies the variable consideration guidance only to the variability resulting from reasons other than the form of the consideration.

84. A few respondents (mainly standard-setters) suggested the IASB add guidance on accounting for non-cash consideration payable to a customer, including consideration in the form of:

(a) share-based payments. Most of those respondents suggested the IASB consider the FASB's amendments to Topic 606 which require equity instruments granted by an entity in conjunction with selling goods or services to be measured and classified by applying the guidance in ASC Topic 718, Compensation—Stock Compensation. Accordingly, the instruments are measured at the grant date and changes in the measurement of the instruments after the grant date that are due to the form of the consideration are reflected elsewhere in the income statement (rather than in revenue). [15]

(b) loyalty points granted outside of a revenue transaction, for example in online gaming.

85. Two respondents highlighted that consideration, including consideration payable to a customer, in the form of share-based payments has become more common in recent years.

[15] See FASB ASU 2019-08, Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606).

Staff analysis

Clarity and suitability of requirements

86. The question about the date of measurement of a non-cash consideration is not new. In developing IFRS 15, the IASB decided not to include guidance on the date of measurement of non-cash consideration. Paragraph BC254C and BC254E of the Basis for Conclusions on IFRS 15 explain the IASB's reasons for not including guidance:

(a) the issue has important interactions with other Standards (including IFRS 2 *Share-based Payment* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*). Therefore, to reduce the risk of potential unintended consequences, if needed, issues relating to the measurement of non-cash consideration should be considered more comprehensively in a separate project.

(b) discussions with some stakeholders highlighted that any practical effect of different measurement dates would arise in only limited circumstances. The IASB acknowledged that differences might arise between an entity reporting under IFRS Accounting Standards and an entity reporting under US GAAP. The IASB also noted that paragraph 126 of IFRS 15 requires an entity to disclose information about the methods, inputs and assumptions used for measuring non-cash consideration.

87. For similar reasons, the IASB also decided not to amend IFRS 15 to align the guidance with the FASB's amendments to Topic 606 which clarify that, if the fair value of the non-cash consideration varies because of the form of the consideration and for other reasons, an entity applies the variable consideration guidance only to the variability resulting from reasons other than the form of the consideration.[16] The IASB acknowledged that differences might arise between an entity reporting under IFRS Accounting Standards and an entity reporting under US GAAP.

[16] See paragraph BC254H of the Basis for Conclusions on IFRS 15.

88. The staff think that the IASB's reasons for not including the guidance as described in paragraphs 86–87 are still valid. The feedback does not provide sufficient evidence to suggest that diversity is widespread. Providing guidance similar to the FASB's guidance could cause disruption and unintended consequences.

89. In addition, IFRS 15 provides an illustrative example to help entities account for non-cash consideration. Example 31, accompanying IFRS 15, illustrates how an entity measures the fair value of shares received upon completion of each week of service as each week of service is complete. The example states that the entity does not reflect any subsequent changes in the fair value of the shares received (or receivable) in revenue.

90. With respect to requests for further guidance on non-cash consideration payable to a customer, the staff think that overall feedback does not suggest the matters are widespread. Providing specific guidance requested by respondents could cause disruption and unintended consequences. A few participants at the FASB's PIR of Topic 606 Roundtable discussion raised concerns on applying Topic 606 with Topic 718.

91. Although two respondents said that consideration in the form of share-based payments has become more common in recent years, we have no evidence to suggest that the matters are widespread.

92. For the reasons discussed in paragraphs 86–91, the staff think the feedback to the RFI provides insufficient evidence that there are fundamental questions about the clarity and suitability of the IFRS 15 requirements on accounting for non-cash consideration.

Benefits to users of financial statements

93. Feedback on the RFI does not suggest that there is significant diversity in practice resulting from accounting for non-cash consideration. Diversity in this matter is difficult to establish without carefully considering the terms and conditions of each arrangement—observed diversity could be due to differences in facts and circumstances, including the nature of the non-cash consideration and the timing of an

entity's satisfaction of its performance obligation, rather than entities reaching different conclusions on the same fact pattern. An entity is expected to disclose information about the methods, inputs and assumptions used for measuring non-cash consideration (see paragraph 126 of IFRS 15), as well as provide other disclosures to meet the objective in paragraph 110 of IFRS 15.

94. For the reasons discussed in paragraph 93, the staff think that the feedback does not indicate that the benefits to users of financial statements of the information resulting from the accounting for non-cash consideration are significantly lower than expected.

Costs of applying the requirements

95. We received no feedback on the RFI that accounting for non-cash consideration 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.

Staff recommendation and question for the IASB

96. For the reasons discussed in paragraphs 86–95, 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 accounting for non-cash consideration.

Question 4 for the IASB
Do IASB members agree with the staff recommendation in paragraph 96 of this paper?

Question 5 for the IASB
As explained in paragraph 10, 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	A few respondents asked how to account for a prepayment made for consideration payable to a customer—should it be recognised as an asset, and if so, what type of an asset would it be and how it should be accounted for subsequently. The respondents said this could affect whether and how that asset should be evaluated for impairment and whether it would be subject to foreign currency revaluation.	The staff suggest no action because the feedback does not suggest that the matter is prevalent or that it significantly affects financial statements of many entities.
2	A few respondents asked for guidance or illustrative examples on how to determine whether to account for a coupon as consideration payable to a customer, variable consideration or a customer option for additional goods and services.	The determination would depend on the facts and circumstances. The staff suggest no action because the feedback does not suggest the matter is widespread. The staff also note that in 2015, the TRG considered a question related to accounting for coupons and concluded that the stakeholders can understand and apply the applicable guidance.[17]
3	A few respondents commented on the principle for accounting for consideration payable to a customer: (a) a standard-setter asked the IASB to consider introducing an option to expense the consideration paid to customers at contract inception if	The staff suggest no action. Most of the respondents to the RFI agreed with the principle for accounting for consideration payable to a customer and the feedback does not indicate that the matters raised by the respondents are widespread.

[17] See January 2015 TRG Agenda ref 14 *Variable Consideration*, March 2015 TRG Agenda ref 28 *Consideration Payable to a Customer* and July TRG Agenda ref 37 *Consideration Payable to a Customer*.

	the contract life cannot be estimated reliably or the estimate requires undue cost or effort; and (b) an accounting firm suggested that the consideration payable to customers should be treated as cost of sale as in their view it would better reflect the substance of the transaction.	
4	A standard-setter asked for guidance on accounting for contract modifications in which additional consideration is provided to the customer.	Accounting for such modifications would depend on the facts and circumstances. The staff suggest no action because the feedback does not suggest that the matter is widespread.
5	A standard-setter asked for more guidance on choosing between the expected value and the most likely amount method for estimating an amount of variable consideration.	Paragraph 53 of IFRS 15 requires an entity to choose the method that the entity expects to better predict the amount of consideration to which it will be entitled—the determination would depend on the facts and circumstances. The staff suggest no action because the feedback does not suggest that the matter is widespread.
6	A few respondents asked for more guidance on determining whether some types of charges and payments—for example, claims, penalties or loyalty points—should be included in assessing variable consideration and if so, how to account for them.	Determination would depend on facts and circumstances. Paragraphs 51–52 of IFRS 15 provide guidance on identifying whether variability is present in a contract with a customer. In addition, September 2019 Committee Agenda Decision *Compensation for Delays or Cancellations* explained how to apply the requirements in IFRS 15 to a fact pattern involving an entity's obligation to

		compensate customers. The staff suggest no action is needed.
7	A few respondents asked for application guidance and examples for specific fact patterns, including: (a) the allocation of variable consideration to a series of distinct goods or services that form a single performance obligation. (b) the application of variable consideration guidance by an agent if its commission depends on the end customer's right of return. (c) the application of the constraint on variable consideration when the expected value method is applied.	Entities would need to apply judgement in applying IFRS 15 requirements to their facts and circumstances. The staff suggest no action because the feedback does not suggest that the matters are widespread.
8	An accounting firm said increasing inflation might lead to challenges in the application of the constraint on variable consideration and suggested the IASB monitor this area.	The staff suggest no action because the feedback does not suggest the matter is widespread in practice.

Appendix B—FASB PIR of Topic 606: Extracts from the November 2023 Public Roundtable discussion materials and minutes[18]

Discussion materials

Area D: Constraint on Variable Consideration

39. The staff's outreach with stakeholders indicates that it can be challenging to conclude that variable consideration should be fully constrained in accordance with paragraphs 606-10-32-11 through 32- 13, even for transactions with long duration and high uncertainty. In some cases, investors also observed challenges in understanding how management has developed their estimates of variable consideration and understanding adjustments to those estimates in subsequent periods.

40. Topic 606 differs from the previous revenue guidance because it requires estimating variable consideration and constraining those estimates to ensure revenue is not overstated. The estimation of variable consideration is a fundamental change in Topic 606 from the previous revenue guidance because the new revenue model requires that an entity depict the transfer of goods or services to a customer in an amount that reflects the amount of consideration that an entity expects to receive for those goods or services.

41. The constraint guidance requires that an entity include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 606-10-32-8 but only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. During the implementation of Topic 606, many preparers expressed a preference to constrain 100 percent of variable consideration rather than estimate the amount of variable consideration because of the potential for future reversals. Because of the contingent revenue cap in Topic 605, variable or contingent revenue was generally not recognized until the contingency was resolved and the fees were fixed and determinable.

42. The staff observes that the guidance in paragraph 606-10-32-12 includes specific factors that an entity must consider when determining whether to constrain its estimate of variable consideration. Those factors include (a) the amount of consideration is highly susceptible to factors outside an entity's influence and (b) the uncertainty about the amount of consideration is not expected to be resolved for a long period of time. However, despite the existence of those factors, there appears to be reluctance in practice to assert that variable consideration should be constrained in certain scenarios.

43. The staff formed some preliminary observations and perspectives on the underlying causes for the challenges related to estimating variable consideration and the related constraint:

(a) The staff observes that certain transaction prices are inherently hard to estimate and require judgment. The staff observed that under Topic 606 it can be challenging to estimate the

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

transaction price in certain contracts, especially when the estimate is driven by data that are susceptible to outside influence or over long periods of time.

(b) Judgment is involved in assessing the probability and significance of the potential reversal.

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 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

Constraint on Variable Consideration

Participants noted that companies may have an "all or nothing" mentality in applying the constraint guidance and tend to try to use the factors listed in paragraph 606-10-32-12 to constrain 100 percent of the variable consideration to avoid judgment. A practitioner participant noted that those factors should not be treated as criteria that, once met, would directly result in constraining the variable consideration. Instead, even when those factors occur, a company still needs to assess why the existence of those factors makes it not probable that the significant revenue reversal will not occur. This practitioner participants noted that supporting and auditing this assessment is challenging in practice. A few practitioner participants commented that preparers find it difficult to properly support their variable consideration estimates and it is challenging to allocate variable consideration for new types of arrangements or determine when the variable consideration allocation exception has been met. Additionally, a few participants noted the challenges in determining, supporting, or auditing whether "probable" has been met. A few participants expressed a desire to expand the sales-based or usage-based royalty exception or provide a practical expedient that would allow private companies to expand the use of the sales-based or usage-based royalty exception to other arrangements beyond licensing.

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.