

Memo No. **Issue Summary No. 2**

Issue Date **June 2026**

Meeting Date **EITF Meeting June 23, 2026**

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Issue Name	Consideration Payable to a Customer		
Issue Stage	Initial Deliberations		

Overview

1. On January 30, 2026, the Emerging Issues Task Force (EITF) received an agenda request from Deloitte relating to scope considerations about when payments made on behalf of customers, or to customers of customers, should be accounted for as consideration payable to a customer. The EITF Agenda Committee added this issue to the EITF's agenda at its March 2026 agenda committee meeting.
2. At the June 2026 EITF meeting, EITF members will discuss this issue and will be asked to vote on whether they recommend that the FASB (Board) add a project to its technical agenda and address the issue using the EITF's recommended approach.
3. This Issue Summary is organized as follows:
 - a) Issue Background
 - b) Alternatives
 - c) Entity Scope
 - d) Optional or Required Application
 - e) Transition and Early Adoption
 - f) Next Steps
 - g) Appendix A: Practitioner Guidance.

The alternative views presented in this Issue Summary are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles. Additionally, the proposed amendments to the Codification included in this Issue Summary are provided for context and discussion purposes only. Amendments to the Codification are made only after extensive due process and deliberations by the Financial Accounting Standards Board.

Questions

Alternatives

1. Which alternative does the EITF support?
 - a. Alternative A: Payments made on behalf of a customer, or to a customer of an entity's customer, should be evaluated as consideration payable to a customer when there is either (1) an explicit or implicit promise to the customer that such payments would be made or (2) the payment represents an in-substance price concession to the customer that has a reasonable expectation that the payment will be made to the customer's customer.
 - b. Alternative B: Payments made on behalf of a customer, or to a customer of an entity's customer, should be evaluated as consideration payable to a customer when there is an explicit promise to the customer that the payment will be made, or the customer predominantly benefits from a payment made by the entity.
 - c. Alternative C: Any payments made on behalf of a customer, or to a customer of an entity's customer, should be evaluated as payments made to a customer.

Entity Scope

2. Does the EITF agree that the recommended approach should apply to all entities?

Optional or Required Application

3. Does the EITF agree that entities should be required to apply the recommended approach?

Transition and Early Adoption

4. Does the EITF have feedback for the Board to consider on transition and early adoption?

Issue Background

4. Consideration payable to a customer has been an area of accounting judgment and complexity for decades. When developing Topic 606, Revenue from Contracts with Customers, the Board largely carried forward the existing framework for accounting for consideration payable to a customer that was established by EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." The scope of Issue 01-9 included "consideration to any purchasers of the vendor's products at any point along the distribution chain, regardless of whether the purchaser receiving the consideration is a direct customer of the vendor." Some argue that this

scope was effectively carried forward into Topic 606, and specifically to paragraph 606-10-32-25.¹ However, others believe that Topic 606 requires a different evaluation.

5. To determine whether a payment made by an entity should be determined to be consideration payable to a customer and reduce the revenue recognized under the guidance in Topic 606, an entity typically must perform the following steps:
 - a) Identify the entity's customer(s), and whether a payment should be evaluated as consideration paid to a customer.
 - b) Identify whether the payment is made in a form (e.g., cash, shares, discounts, etc.) that represents consideration payable to a customer.
 - c) Identify whether the payment is in exchange for a distinct good or service.
6. The purpose of this issue summary is to address diversity in practice related to determining whether payments made to customers of a customer should be evaluated as consideration paid to a customer (step (a) above). This issue summary does not attempt to change what form of payments should be evaluated as consideration paid to a customer (step (b) above) or the framework used to determine if payments made to a customer are in exchange for a distinct good or service (step (c) above).
7. The scope of the guidance, as issued, focused solely on parties that "purchase the *entity's* goods or services from the customer"¹ (emphasis added). That is, the guidance as issued did not contemplate intermediaries that arranged for third parties (i.e., the entity's customers) to transfer goods or services to end users (i.e., the customers' customers), and some have argued that for the payment to be directly within the scope of Topic 606's guidance on consideration payable to a customer, the payment needs to be made to someone in the distribution chain that purchased the entity's goods or services. This narrow, literal read would exclude from the scope (a) any payments made to the customers of an entity's customer that were purchasing the customer's, rather than the entity's, goods or services, and (b) payments made on behalf of a customer.
8. While the joint transition research group (TRG) did consider what entities would be considered a customer's customer (e.g., only a customer within the distribution chain or all customers of the customer) and whether an agent may consider both the principal and the end user as customers, the TRG did not address whether payments to a customer of a customer would be consideration payable to a customer unless the payment was contractually required.²

¹ Paragraph 606-10-32-25(a) 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)."

² Paragraph 10 of Agenda Reference 37 stated that "TRG members agreed that under either View A or View B, a payment to a customer's customer would be considered a payment to a customer if the entity has a contractual agreement with its customer to provide consideration to that customer's customer."

9. Despite the discussion at the TRG and corresponding FASB implementation Q&As, there has been significant diversity in practice on the evaluation of whether payments to a customer of a customer should be within the scope of Topic 606 and evaluated as consideration paid to a customer. While the TRG's views are clear that a payment to a principal's end customer that was contractually required on the basis of an agreement between the entity and the principal would represent consideration payable to a customer, diversity in practice continues for payments made to a customer of a customer that are not explicitly required under the contract but for which the entity's customer has a valid expectation that payments or incentives will be provided to the end customer in connection with the entity's satisfying its performance obligation to its customer.
10. The question of whether payments made to a customer of a customer are within the scope of Topic 606 as consideration paid to a customer, when there may not be an explicit contractual obligation to make such payments, was a topic of discussion at the 2021 AICPA & CIMA Conference on Current SEC and PCAOB Developments (the "2021 AICPA Conference"). During a session on current projects in the SEC's Office of the Chief Accountant (OCA), then OCA Senior Associate Chief Accountant Jonathan Wiggins discussed a scenario in which an entity that operates a marketplace platform and is acting as an agent must determine which party or parties are the entity's customers. Mr. Wiggins noted that even if the entity concludes that it has only one customer (i.e., the seller in the marketplace), the entity should consider whether it has made an implicit or explicit promise to provide incentives to the end user on the seller's behalf. Furthermore, the entity should consider whether incentives are in-substance price concessions because the seller has a valid expectation that the entity will provide the incentives to the end user buying the good or service.
11. Notwithstanding the TRG's discussion and the SEC's publicly expressed views, there continues to be diversity in practice in how entities consider payments made or promised to customers of a customer. Specifically, some believe that only payments that are contractually required to be made to a customer of a customer would be considered payments to a customer within the scope of Topic 606. This narrow interpretation might be supported by the TRG's discussions but would be inconsistent with the SEC's views as discussed at the 2021 AICPA Conference.
12. The scoping challenge that this issue summary addresses is prevalent in business models that involve intermediaries that connect buyers and sellers. These are often technology-driven platform-type offerings that span many industries (e.g., financial technology, online marketplaces, ad tech, etc.). However, the scope of this issue summary is not limited to these types of entities. Rather, any revised guidance would apply to all entities that make payments to customers of an entity's customer. For example, a seller's real estate agent who promises to share a percentage of its commission with a buyer would apply the revised guidance from this issue summary.

Alternatives³

Alternative A—Payments made on behalf of a customer, or to a customer of an entity’s customer, should be evaluated as consideration payable to a customer when there is either (1) an explicit or implicit promise to the customer that such payments would be made or (2) the payment represents an in-substance price concession to the customer that has a reasonable expectation that the payment will be made to the customer’s customer.

13. Under Alternative A, the guidance in Subtopic 606-10 could be amended as follows to limit the diversity in practice (additions underlined):

Amendments	Basis for Change
606-10-32-25 Consideration payable to a customer includes: a. 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) b. 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) c. Share-based consideration (liability or equity classified) granted to the customer (or to other parties that purchase the grantor's goods or services from the customer) in conjunction with selling goods or services. Share-based consideration encompasses the same instruments as share-based payment arrangements (for example, shares, cash-settled stock appreciation rights, share options and warrants, or other	N/A—not amended However, in drafting, it may be desirable to relocate the guidance that states “(or to other parties that purchase the entity’s goods and services)” from (a), (b), and (c) into proposed paragraph 606-10-32-25B (see below). The objective of that change would be solely readability; there is no intent to change the evaluation or application.

³ This section provides potential amendments for the alternatives being considered to solicit feedback from EITF members about whether those potential amendments could achieve the outcome intended by that alternative. The potential amendments have been included for context and discussion only. Amendments to the Codification are made only after extensive due process and deliberations by the Board and are subject to change in the drafting process.

equity instruments), but the grantee (as a customer) need not be a supplier of goods or services to the grantor. An entity shall account 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 (as described in paragraphs 606-10-25-18 through 25-22) that the customer transfers to the entity. If the consideration payable to a customer (other than share-based consideration) includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 606-10-32-5 through 32-13. See paragraph 606-10-32-25A for guidance applicable to share-based consideration payable to a customer.	
606-10-32-25A Share-based consideration granted by an entity in conjunction with selling goods or services shall be measured and classified under Topic 718 on stock compensation. The share-based consideration shall be measured at the grant date in accordance with Topic 718 (for both equity-classified and liability-classified awards). Changes in the measurement of the share-based consideration (through the application of Topic 718) after the grant date that are due to the form of the consideration shall not be included in the transaction price. Any changes due to the form of the consideration shall be reflected elsewhere in the grantor's income statement. See paragraphs 606-10-55-88A through 55-88C for implementation guidance on share-based consideration payable to a customer.	N/A—not amended
606-10-32-25B Consideration payable to a customer (see paragraph 606-10-32-25) also includes payments to a customer of an entity's customer that are made in	This proposed amendment would add a paragraph that is meant to clarify that payments made to

<u>connection with the entity satisfying its promise to its customer; see paragraph 606-10-32-25C.</u>	customers of a customer also could be in the scope of Topic 606 and need to be evaluated as consideration paid to a customer. This proposed amendment would expand on the guidance currently in paragraph 606-10-32-25 so that the consideration payable to a customer scope analysis includes more than just payments to the customer of an entity's customer that purchases the entity's goods or services. The proposed paragraph refers to additional guidance that assists in this assessment.
<u>606-10-32-25C</u> A payment to a customer of a customer is made in connection with the entity satisfying its promise to its customer if either of the following conditions is present: a. <u>An explicit or implicit promise exists for the entity to make a payment to the customer of the customer. An implicit promise may be implied by an entity's customary business practices, published policies, or specific statements if at the time of entering into the contract, the customer has a reasonable expectation that payments will be made to the customer's customer.</u> b. <u>The payment represents an in-substance price concession to the customer that has a reasonable expectation that the payment will be made to the customer's customer. The implicit obligation to make a payment to a customer's customer could arise after contract inception and be, for example, in the</u>	This proposed amendment would add a paragraph that is meant to codify the conditions that an entity must assess when determining whether a payment to the customer of an entity's customer is made in connection with the entity satisfying its promise to its customer. The two conditions are meant to reflect circumstances in which an entity has an explicit or implicit promise to make a payment at contract inception (paragraph 606-10-32-25C(a)) and to address circumstances in which the promise to make the payment arises sometime after contract inception in the form of a customer concession (paragraph 606-10-32-25C(b)).

<u>form of an incentive, rebate, credit, or payment made to the customer's customer.</u>	
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14. Proponents of Alternative A believe that the proposed guidance would provide a framework for entities to apply when assessing whether payments that are not contractually required represent consideration payable to a customer in accordance with Topic 606. Proponents of Alternative A also believe that the proposed amendments would improve consistency and relevance in financial reporting. While many entities have applied informal guidance from SEC speeches and TRG interpretations, there has been a lack of explicit guidance about whether certain payments to a customer's customer (i.e., an entity other than the customer within the distribution chain) should be included within the scope of consideration payable to a customer.
15. Proponents of Alternative A believe that it is important to identify what payments to customers of a customer (or on behalf of the customer) form part of the contract with a customer. Paragraph 606-10-25-2 states that contracts can be "written, oral, or implied by an entity's customary business practices." Proposed paragraph 606-10-32-25C would clarify that a customer may expect that payments will be made to its customers and that the payments, which could arise as a result of an entity's "customary business practices," should be evaluated as consideration paid to a customer.
16. While proponents of Alternative A believe that it is important to identify what payments to customers of a customer (or on behalf of the customer) form part of the contract with a customer (as an implicit or explicit promise or an in-substance price concession), those proponents do not believe that an entity should not have to undertake an extensive analysis to determine whether the customer of an entity's customer represents a customer as defined in Topic 606. Proponents of Alternative A believe that when an entity is making payments to parties other than their direct customer, they would typically already have an understanding of the payee's relationship with the entity's customer (i.e., whether they are a customer of the entity's customer). Therefore, entities would not be expected to complete a costly analysis or assume any undue burden to determine whether the payee represents the customer's customer.
17. In addition, proponents of Alternative A believe that the proposed framework for identifying when payments to a customer of a customer (that form part of the contract with a customer) represent consideration payable to a customer would be consistent with how other promises to a customer are identified. Specifically, paragraph 606-10-25-16 states:

...the promised goods and services identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in that contract. This is because a contract with a customer also may include promises that are implied by an entity's customary business practices, published policies, or specific statements if, at the

time of entering into the contract, those promises create a reasonable expectation of the customer that the entity will transfer a good or service to the customer.

18. Proposed paragraph 606-10-32-25C is intended to identify the payments that are promised (implicitly or explicitly) at contract inception (paragraph 606-10-32-25C(a)) and those that arise as a result of concessions or price adjustments that occur after contract inception (paragraph 606-10-32-25C(b)). Proponents of Alternative A believe that the proposed amendments would further align the guidance on consideration payable to a customer (which can result in adjustments to the transaction price) with other guidance addressing variability in the transaction price (e.g., paragraph 606-10-32-7).
19. Proponents of Alternative A believe that many SEC reporting entities already interpret GAAP in a manner consistent with the proposed solution above. However, given the lack of authoritative guidance, some reporting entities believe that the scope of consideration paid to a customer is limited to payments contractually required to be made to a customer of a customer or payments made to other parties in the direct distribution chain. Proponents of Alternative A believe that the proposed amendments would provide a framework within Topic 606 that would limit diversity in practice and be consistent with how many interpret the guidance today.

Alternative B—Payments made on behalf of a customer, or to a customer of an entity’s customer, should be evaluated as consideration payable to a customer when there is an explicit promise to the customer that the payment will be made, or the customer predominantly benefits from a payment made by the entity.

20. Under Alternative B, the guidance in Subtopic 606-10 could be amended as follows (additions underlined):

Amendments	Basis for Change
606-10-32-25 Consideration payable to a customer includes: a. 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) b. 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)	N/A—not amended However, in drafting, it may be desirable to relocate the guidance that states “(or to other parties that purchase the entity's goods and services)” from (a), (b), and (c) into proposed paragraph 606-10-32-25B (see below). The objective of that change would be solely readability; there is no intent to change the evaluation or application.

c. Share-based consideration (liability or equity classified) granted to the customer (or to other parties that purchase the grantor's goods or services from the customer) in conjunction with selling goods or services. Share-based consideration encompasses the same instruments as share-based payment arrangements (for example, shares, cash-settled stock appreciation rights, share options and warrants, or other equity instruments), but the grantee (as a customer) need not be a supplier of goods or services to the grantor. An entity shall account 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 (as described in paragraphs 606-10-25-18 through 25-22) that the customer transfers to the entity. If the consideration payable to a customer (other than share-based consideration) includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 606-10-32-5 through 32-13. See paragraph 606-10-32-25A for guidance applicable to share-based consideration payable to a customer.	
606-10-32-25A Share-based consideration granted by an entity in conjunction with selling goods or services shall be measured and classified under Topic 718 on stock compensation. The share-based consideration shall be measured at the grant date in accordance with Topic 718 (for both equity-classified and liability-classified awards). Changes in the measurement of the share-based consideration (through the application of Topic 718) after the grant date that are due to the form of	N/A—not amended

the consideration shall not be included in the transaction price. Any changes due to the form of the consideration shall be reflected elsewhere in the grantor's income statement. See paragraphs 606-10-55-88A through 55-88C for implementation guidance on share-based consideration payable to a customer.	
<u>606-10-32-25B</u> Consideration payable to a customer (see paragraph 606-10-32-25) also includes any payment to a customer of an entity's customer that is explicitly required pursuant to the contract with the customer or if the customer is the party that predominantly benefits from the payment at the time the payment is made (see paragraph 606-10-32-25C).	This proposed amendment would clarify that payments that are explicitly required pursuant to the contract would be evaluated as consideration payable to a customer and would introduce a principle under which an entity would be required to consider which party (i.e., the entity or the entity's customer) predominantly benefits from a payment to the customer of a customer at the time of payment.
<u>606-10-32-25C</u> There is a rebuttable presumption that an entity's customer predominantly benefits from a payment to the customer of an entity's customer if either of the following indicators, which are not all inclusive, exist at the time the payment is made: a. <u>The payment coincides with the customer's revenue-generating activity. For example, if a customer of a customer's (for example, an end customer) right to payment from the entity coincides with the end customer's purchase of the entity's customer's goods or services, the entity's customer presumably would be receiving the predominant benefit.</u> b. <u>The entity's customer directly compensates the entity for payments made to customers of the customer. For example, if the entity's customer is compensating the entity for</u>	This proposed amendment would introduce a rebuttable presumption that payments to a customer's customer outside the distribution chain are accounted for as consideration payable to a customer on the basis of potential indicators. The indicators listed are not meant to be all inclusive, and the rebuttable presumption could be overcome if there is sufficient evidence that the entity making the payment is the one that predominantly benefits from the payment at the time the payment is made.

<u>payments made to end customers (that is, the customer is required to pay incremental amounts that correspond to payments made to end customers), the entity's customer presumably would be receiving the predominant benefit.</u>	
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21. Similar to Alternative A, under Alternative B, if a contract with a customer required that payments be made to the customer's customer outside the distribution chain, those amounts would be treated as consideration paid to a customer. Alternative B also would introduce the concept of predominance, which exists elsewhere in GAAP,⁴ regarding evaluating the substance of the payments made to customers of a customer that are not contractually required. In practice, this alternative might result in outcomes similar to those under Alternative A; however, a different framework would be used in which an entity attempts to identify payments made on behalf of a customer by assessing whether the entity's customer is the entity that predominantly benefits from the payment. While significant judgment would still be involved, the rebuttable presumption would serve as a framework that could apply to all entities.
22. Proponents of Alternative B believe that the notion of predominance might assist with the identification of payments that should be economically linked to a contract with a customer, even if there is no contractual obligation (implicit or explicit).
23. Proponents of Alternative B agree with proponents of Alternative A that a contractual link is important and, to the extent that payments to a customer of a customer are contractually required, such payments would be evaluated as consideration paid to a customer. However, proponents of Alternative B believe that additional payments also should be within the scope if the entity's customer is the party that predominantly benefits from the payments (regardless of whether making the payments to a customer's customer is implicitly promised).
24. Opponents of Alternative B observed that the revenue model under Topic 606 is predicated on identifying the explicit or implicit enforceable promises made to a customer and believe that those that apply Alternative B might identify some payments to a customer of a customer that should not form part of the contract with the customer. For example, an entity may make a one-time payment to a particular group of end users (i.e., customers of the customers), which does not form part of the contract with the

⁴ Paragraph 606-10-55-65A states that "the guidance for a sales-based or usage-based royalty in paragraph 606-10-55-65 applies when the royalty relates only to a license of intellectual property or when a license of intellectual property is the predominant item to which the royalty relates...." Additionally, Subtopic 842-10, Leases—Overall, includes the concept of predominance in determining the predominant component within a combined component (paragraph 842-10-15-42B) and the predominant asset in a lease component (paragraph 842-10-25-5).

entity's customers. Even if a customer predominantly benefits from such payment, opponents of Alternative B do not believe such payment should not be evaluated as consideration paid to a customer if that payment is not part of the contract with the customer.

25. Furthermore, opponents of Alternative B observed that if the entity (rather than the customer of the entity) predominantly benefits from the payments made to a customer of a customer, the entity might be likely to conclude that it obtained a distinct good or service from the customer of the customer and would treat the payment to that party in a manner similar to how it would treat payments to other parties that provide similar goods or services and are not customers of a customer. Opponents of Alternative B believe that the additional level of judgment used in the determination of which entity predominantly benefits from the payment is not necessary and may not consistently result in improved financial reporting outcomes.

Alternative C—Any payments made on behalf of a customer, or to a customer of an entity's customer, should be evaluated as payments made to a customer.

26. Under Alternative C, the guidance in Subtopic 606-10 could be amended as follows (additions underlined):

Amendments	Basis for Change
606-10-32-25 Consideration payable to a customer includes: a. 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) b. 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) c. Share-based consideration (liability or equity classified) granted to the customer (or to other parties that purchase the grantor's goods or services from the customer) in conjunction with selling goods or services. Share-based consideration encompasses	N/A—not amended However, in drafting, it may be desirable to relocate the guidance that states “(or to other parties that purchase the entity's goods and services)” from (a), (b), and (c) into proposed paragraph 606-10-32-25B (see below). The objective of that change would be solely readability; there is no intent to change the evaluation or application.

the same instruments as share-based payment arrangements (for example, shares, cash-settled stock appreciation rights, share options and warrants, or other equity instruments), but the grantee (as a customer) need not be a supplier of goods or services to the grantor. An entity shall account 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 (as described in paragraphs 606-10-25-18 through 25-22) that the customer transfers to the entity. If the consideration payable to a customer (other than share-based consideration) includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 606-10-32-5 through 32-13. See paragraph 606-10-32-25A for guidance applicable to share-based consideration payable to a customer.	
606-10-32-25A Share-based consideration granted by an entity in conjunction with selling goods or services shall be measured and classified under Topic 718 on stock compensation. The share-based consideration shall be measured at the grant date in accordance with Topic 718 (for both equity-classified and liability-classified awards). Changes in the measurement of the share-based consideration (through the application of Topic 718) after the grant date that are due to the form of the consideration shall not be included in the transaction price. Any changes due to the form of the consideration shall be reflected elsewhere in the grantor's income statement. See paragraphs 606-10-55-88A through 55-88C for implementation guidance on share-based consideration payable to a customer.	N/A—not amended

<u>606-10-32-25B</u> Consideration payable to a customer (see paragraph 606-10-32-25) also includes any payment to a customer of an entity's customer.	This proposed amendment would require an entity to consider any payment made to a customer of a customer as consideration payable to a customer. This framework would not incorporate any judgment associated with whether the customer has a reasonable expectation that the entity will make the payment, and it would not require an entity to consider which party (the entity or the customer) predominantly benefits from the payment. Rather, any consideration payable to customers of a customer (or their customers) would be evaluated to determine if the payment is in exchange for a distinct good or service that is transferred to the entity.
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27. Proponents of Alternative C believe that this view simplifies the identification of consideration payable to a customer since all payments to a customer's customer (including those outside the entity's distribution chain) would represent consideration payable to a customer. Since Alternative C includes no concept of an explicit or implicit promise to make a payment, or which party predominantly benefits from the payment, an entity would need to use less judgment in determining whether a payment represents consideration payable to a customer.
28. Opponents of Alternative C believe that this approach would reflect payments made to parties other than an entity's customer that should not be considered as part of the contract with the customer. Specifically, opponents of Alternative C believe that only payments that an entity is contractually required (implicitly or explicitly) to make to a customer's customer form part of the contract with the customer. For example, an entity may make a discretionary payment to a customer's customer to grow the entity's user base, but no customer of the entity has a valid expectation that such payments are made and that the entity (rather than the entity's customer) predominantly benefits from the payment. Opponents of Alternative C believe including additional payments in the analysis would be inconsistent with the contract combination guidance and the guidance on determining the transaction price.

29. Because payments to customers of a customer that are not contractually required to be made may often be in exchange for distinct goods or services, the outcomes from applying Alternative C may not significantly differ from those under Alternative A or Alternative B. However, Alternative C would introduce additional costs and complexity because entities would be required to both identify all payments made to a customer's customers and evaluate whether those payments are made in exchange for distinct goods or services. This is consistent with TRG discussions,⁵ which stated that an entity would not strictly need to assess all payments to a customer (e.g., payments for distinct goods that the customer supplies under a separate contract for a different product that is sold by another segment of the entity). Opponents of Alternative C believe that this analysis is unnecessary unless payments are implicitly or explicitly contractually required (regardless of whether the payment is required at inception) (Alternative A) or the customer predominantly benefits from such payments (Alternative B). If the customer does not primarily benefit from the payment or does not have a reasonable expectation that the payment will be made to the recipient, the payment does not appear to be associated with the entity's revenue contract with its customer.

Illustrative Examples of Alternatives Considered

Example 1—Agreed upon Payments to the Customer's Customer

30. Company P is a platform company that promises to arrange for third-party vendors of new and used goods to sell goods directly to end user customers. Company P identifies only a third-party vendor, V, as its customer (V is the principal to the end customer) and concludes that it is providing a marketing service to V in connection with its service of arranging for V to transfer goods to end customers.
31. As part of P's promise to V, P agrees to provide incentives to end users (that are V's customers) in the form of a \$10 credit upon the first use of the platform (i.e., when the users purchase a good from V). V is aware of the payments made to the buyers and expects that the payments will be made. In addition, V, rather than P, predominantly benefits from the credit.
32. For Example 1, because the obligation to provide incentives to end users (that are V's customers) forms part of P's contractual promises to V, the incentives provided to end users would be evaluated as consideration paid to a customer under all three alternatives listed above.

⁵ March 30, 2015 TRG meeting, Agenda Paper No. 28.

Example 2—Payments to the Customer’s Customer Based on Customary Business Practice

33. Assume the same background as in Example 1. However, to attract new users to its platform, P offers a \$10 credit off the first purchase. Although this credit is not contractually required, P has an established and customary business practice of providing credits to end customers and routinely markets the availability of credits to first-time users. Customers of P (e.g., V) can access the marketing materials and are aware that credits are being offered to their customers. Because of P’s customary business practices and published marketing materials, V reasonably expects that P will offer credits to users of P’s platform as an incentive to purchase products (including V’s) through P’s platform.
34. Alternative A: Consideration payable to a customer—Given P’s established business practices, V reasonably expects that P will issue credits to end users (including those that purchase V’s products); therefore, the credits would be treated as consideration payable to a customer. Proponents of Alternative A believe Alternative A would limit diversity in practice and would be aligned with the views expressed by the SEC at the 2021 AICPA Conference.
35. Alternative B: Diversity in practice—Company P would need to evaluate which party (i.e., P or V) predominantly benefits from the credits offered to users of the platform to determine whether the payments represent consideration payable to a customer. P might conclude that it predominantly benefits from the payment because the payment is intended to make its platform more attractive, increasing the user base, which could result in P attracting new customers to enter into contracts for P’s marketplace services. In this case, the credits offered to end-user customers would represent a marketing offer, rather than consideration payable to a customer. However, P might conclude that V predominantly benefits from the payment. This is because the end user customer is entitled to the credit at the same time it purchases goods from V through P’s platform. In this case, the credit provided to end user customers would represent consideration payable to a customer.
36. Alternative C: Consideration payable to a customer—The payment is made to a customer of the customer, and the amount, therefore, would represent consideration payable to a customer.

Recommendation

37. The Lead EITF Member recommends Alternative A.
38. Alternative A would codify guidance that is similar to that which many entities currently apply. Alternative A is consistent with the principles of the informal SEC view and would limit diversity in practice without requiring entities to incur significant costs to apply it.
39. Proponents of Alternative A acknowledge that judgment would still be required to determine whether payments should be included in the scope of consideration payable to a customer. However, the existence of a framework would increase consistency across entities, and the proposed framework is expected to be easily understandable.

Entity Scope

- 40. The recommended solution should be applied to all entities.
- 41. Consideration payable to a customer relates to both public and private entities, and this solution would improve reporting outcomes for both public and private entities and limit diversity in practice.

Optional or Required Application

- 42. Entities should be required to apply the recommended solution. An objective of providing clarifying guidance in identifying payments that should be evaluated as consideration payable to a customer is to reduce the existing diversity in practice. Providing an election or policy choice would not accomplish the goal of achieving greater consistency in the accounting and financial reporting for consideration payable to a customer.

Transition and Early Adoption

- 43. In determining whether the recommended solution should be applied on a retrospective basis, the Board may want to consider that application of this guidance would likely result in entities identifying more payments within the scope of consideration payable to a customer because each of the alternatives broadens the current scope of the consideration payable to a customer guidance in Topic 606.
- 44. Because of this, entities would likely have to go back and reassess payments made that could form part of previous contracts that may or may not already be complete to determine whether they now meet the updated scope of consideration payable to a customer. This could have a high cost to entities applying a retrospective application of new guidance and the Lead EITF Member therefore believes a prospective or modified retrospective transition would be cost effective and beneficial to preparers.
- 45. However, the Lead EITF Member believes that prospective, retrospective, and modified retrospective approaches would all be appropriate methods to use upon transition.
- 46. The Lead EITF Member believes that a prospective approach (whereby the amended guidance would be applicable for only new contacts or new incentives offered to customers of a customer after the adoption date) would be appropriate because it would result in consistent treatment of all payments made after the standard is adopted. Furthermore, it would not be as costly for entities to apply the new standard because they are not required to reassess previous payments made to customers of an entity's customer.
- 47. The Lead EITF Member also believes that a modified retrospective approach may be appropriate where an entity applies the guidance to any existing contracts with a customer where performance has not been fully completed as of the adoption date. This would allow entities to reflect the alternative in their

treatment of any open contracts, which provides greater consistency between past and future performance for each contract.

48. Identifying all payments historically made to customers of a customer could be time consuming and complex. However, if an entity determines that it has kept sufficient records to appropriately identify payments and that entity prefers to use a full retrospective approach, the Lead EITF Member believes the entity should be able to apply this approach.
49. Early adoption is recommended to be allowed any time after the issuance of the final guidance.

Next Steps

50. If an EITF recommendation is reached for the FASB to add a project to its technical agenda, the FASB staff will prepare an agenda decision memo for the Board to discuss at a public meeting. The agenda decision memo will include the materials discussed by the EITF, a summary of EITF discussions, the basis for the EITF's recommendation, and an analysis of the FASB's agenda criteria. The Board will discuss the issue at a public Board meeting and determine whether to add a project to the FASB's technical agenda.

Appendix A: Practitioner Guidance

- A1. This appendix provides the relevant examples of practitioner guidance on consideration payable to a customer of an entity's customer.
- A2. Deloitte, PwC, KPMG, and EY have issued interpretive guidance that indicates that the informal SEC guidance should be applied when determining whether a payment to the customer of an entity's customer is within the scope of consideration payable to a customer in Topic 606.
- A3. Section 6.6.1.1 of Deloitte's *Roadmap: Revenue Recognition* (November 2025) states the following:

6.6.1.1 Identifying Customers Within the Scope of the Requirements Related to Consideration Payable to a Customer

As noted above, ASC 606-10-32-25 through 32-27 establish requirements related to consideration payable to a customer. ASC 606-10-32-25 states that those requirements apply to (1) an entity's customer (defined in the ASC 606 glossary as 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") and (2) other parties that purchase the entity's goods or services from the customer (commonly referred to as other parties "in the distribution chain," such as a reseller).

The requirements should be applied more broadly to include parties outside the distribution chain depending on the facts and circumstances. ASC 606-10-32-25 is clear that the requirements of ASC 606-10-32-25 through 32-27 apply to parties in the distribution chain. In addition, depending on the circumstances, an entity might identify a customer beyond the distribution chain. In some instances, an agent that arranges for a supplier (the principal) to supply goods to a third party (the end customer) might regard both the principal and the end customer as its customers. In this circumstance, any incentive payment to the end customer should be treated as consideration payable to a customer.

In addition, regardless of whether the end customer is the agent's customer, if the agent has an agreement with the principal to provide consideration to the end customer (e.g., to incentivize the end customer to purchase the principal's goods or services), the entity acting as an agent should treat the consideration payable to the end customer as consideration payable to a customer (i.e., a reduction of revenue rather than an amount recognized as an expense) in accordance with ASC 606-10-32-25 through 32-27.

The above issue is addressed in Implementation Q&A 26 (compiled from previously issued TRG Agenda Papers 19, 25, 28, 34, 37, and 44). For additional information and Deloitte's summary of issues discussed in the Implementation Q&As, see Appendix C.

An agent's agreement with the principal to provide consideration to the end customer may not have to be explicit. That is, contractual linkage is not necessarily required for the incentive payment to be

treated as consideration payable to a customer. Depending on the facts and circumstances, an incentive payment could be implicitly agreed to (i.e., the principal may have a reasonable expectation that the incentive payment will be provided to its customers) and could represent consideration payable to a customer. Significant judgment may be required to determine whether an implicit agreement to provide an incentive to the principal's customer results in consideration payable to a customer, and any information that is reasonably available to the principal's customer should be considered.

Example 6-18

Entity AR is a platform company that provides a marketplace for merchants to sell certain used products to consumers. Entity AR derives revenue from the merchants' use of the platform by collecting a fee (fixed percentage) for each transaction a merchant has with a consumer. Entity AR concludes that the merchants are its customers but consumers are not its customers. Entity AR's sole performance obligation is to provide a platform to connect merchants with consumers. That is, AR considers itself to be acting as an agent when the merchants sell products directly to consumers.

Entity AR regularly offers credits (i.e., discounts) on all products purchased by consumers through the platform to encourage consumer use of the platform and to attract new consumers. However, AR is not obligated to provide discounts under its agreements with the merchants, and the discounts do not affect the consideration the merchants receive from sales of their products. Nevertheless, the merchants are aware of the details of AR's offerings because AR routinely mentions the incentives in advertising campaigns and on its own Web site.

Although AR is not contractually required to provide credits to consumers, the merchants (i.e., AR's customers) are aware of the offerings and have a reasonable expectation of benefiting from them. Further, although AR also benefits from the offerings through increased use of the platform, that benefit is not a good or service that is distinct from the platform services provided to the merchants that benefit from the offerings through increased sales on the platform.

Entity AR therefore concludes that the credits should be accounted for as consideration payable to a customer and records such amounts as a reduction of revenue.

Example 6-19

Assume the same facts as in the example above, except for the following:

- Entity AR does not regularly offer credits to consumers. Rather, AR occasionally offers ad hoc credits as a short-term marketing strategy to penetrate certain markets via e-mail campaigns.
- The details of the offerings are not available to the merchants even after they are provided to consumers.

Because the merchants are unaware of the ad hoc credits, new or existing merchants do not have a reasonable expectation of benefiting from the credits provided to consumers. Therefore, AR may conclude that the credits are not paid on behalf of its customers. That is, AR may conclude that the credits are not consideration payable to a customer and instead can be separately accounted for as sales and marketing expenses when incurred. However, before making this determination, AR should carefully consider any information about the offerings that is reasonably available to the merchants. If information about the offerings is reasonably available to the merchants, the credits may need to be accounted for as consideration payable to a customer.

Connecting the Dots

At the 2021 AICPA & CIMA Conference on Current SEC and PCAOB Developments, OCA Senior Associate Chief Accountant Jonathan Wiggins discussed a scenario in which an entity that operates a marketplace platform and is acting as an agent must determine which party or parties are the entity's customers. This assessment is particularly important when the entity offers incentives to one or more parties involved in the arrangement. Mr. Wiggins referred to isolated fact patterns in which platform entities have concluded that they are seller agents and were able to support the presentation of certain incentives paid to the end user as a marketing expense rather than as a reduction of revenue. He cautioned that an entity's specific facts and circumstances may not support this accounting and financial reporting conclusion and that the SEC staff has objected to recognizing incentives as a marketing expense in certain circumstances. In addition, he advised that an entity acting as a seller agent should consider whether it has multiple customers, including whether it receives consideration from both the seller and the end user. Mr. Wiggins noted that even if the entity concludes that it has only one customer (i.e., the seller), the entity should consider whether it has made an implicit or explicit promise to provide incentives to the end user 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 the incentives to the end user buying the good or service.

In considering the SEC staff's views, we believe that determining whether there is an implicit promise to provide incentives to the end users on the seller's behalf and whether the seller has a valid expectation that the entity (i.e., the entity acting as a seller agent) will provide incentives to the end users requires an understanding of the entity's facts and circumstances. The entity should analyze all communications with the seller and the type of information that the seller might have about the entity's incentive program. If information about the incentives is reasonably available to the seller, those incentives may be deemed to be consideration payable to a customer (i.e., incentives paid on the seller's behalf).

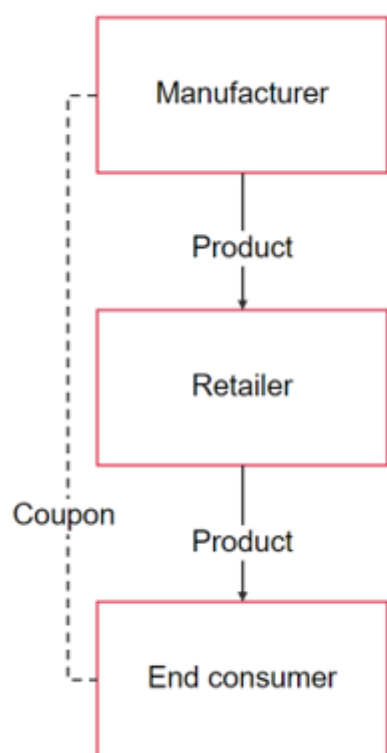
- A4. Section 4.6.2 of PwC’s guide on *Revenue from contracts with customers* (January 2026) states the following:

4.6.2 Identifying a reporting entity’s “customer”

A reporting entity might make payments directly to its customer or make payments to another party that purchases the reporting entity’s goods or services from its customer (that is, a “customer’s customer” within the distribution chain), as illustrated in Figure RR 4-1.

Figure RR 4-1

Example of a payment to a customer’s customer in the distribution chain



Payments made by a reporting entity to its customer’s customer are assessed and accounted for the same as those paid directly to the reporting entity’s customer if those parties receiving the payments are purchasing the reporting entity’s goods and services.

Example RR 4-30 illustrates an arrangement with a payment made by a reporting entity to its reseller’s customer.

EXAMPLE RR 4-30

Consideration payable to customers—payment to reseller’s customer

ElectronicsCo sells televisions to Retailer that Retailer sells to end customers. ElectronicsCo runs a promotion during which it will pay a rebate to end customers that purchase a television from Retailer.

How should ElectronicsCo account for the rebate payment to the end customer?

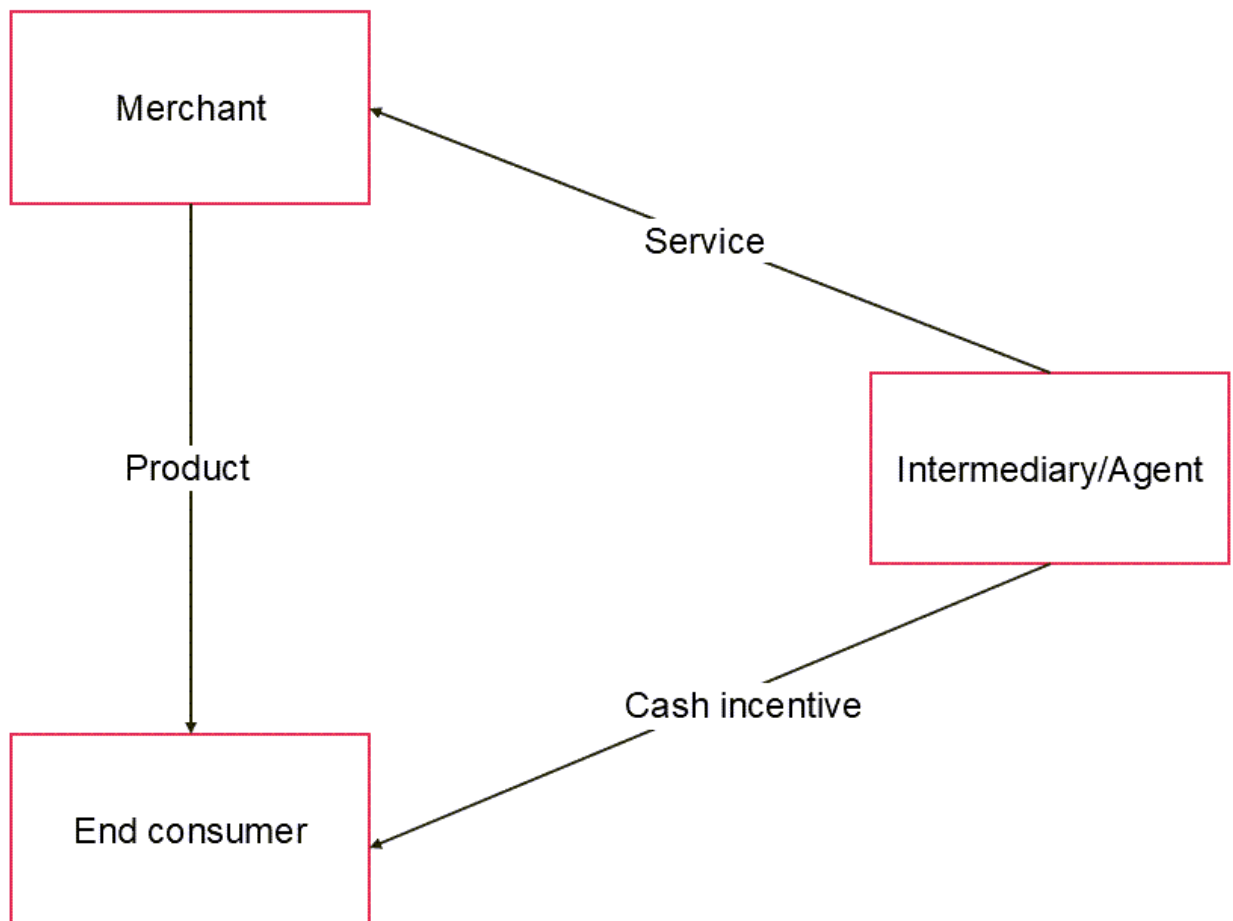
Analysis

ElectronicsCo should account for the rebate in the same manner as if it were paid directly to the Retailer. Payments to a customer's customer within the distribution chain are accounted for in the same way as payments to a customer under the revenue standard.

In certain arrangements, reporting entities provide cash incentives to end consumers that are not their direct customers and do not purchase the reporting entities' goods or services within the distribution chain, as depicted in Figure RR 4-2.

Figure RR 4-2

Example of a payment to an end consumer that does not purchase the reporting entity's goods or services



Management must first identify whether the end consumer is the reporting entity's customer under

the revenue standard. This assessment requires judgment. Management should also consider whether a payment to an end consumer is provided on behalf of the reporting entity's customer (for example, the merchant in Figure RR 4-2). A promise to make a payment on a customer's behalf could either be explicitly stated in the contract with the customer or implied based on the reporting entity's customary business practices, published policies, or specific statements (see RR 3.2.2). If a reporting entity makes a payment to an end consumer on behalf of its customer, the payment would be treated the same as a payment made directly to the customer. See Revenue TRG Memo No. 37 and the related meeting minutes in Revenue TRG Memo No. 44 for further discussion of this topic.

EXAMPLE RR 4-31

Consideration payable to customers—agent's payment to end consumer

TravelCo sells airline tickets to end consumers on behalf of Airline. TravelCo concludes that it is acting as an agent in the airline ticket sale transactions (see RR 10 for further discussion on principal versus agent considerations). TravelCo offers a \$10 coupon to end consumers in order to increase the volume of airline ticket sales on which it earns a commission.

How should TravelCo account for the coupons offered to end consumers?

Analysis

TravelCo must identify its customer (or customers) in order to determine whether the coupons represent consideration payable to a customer. The coupons represent consideration payable to a customer if (1) TravelCo determines the end consumers are its customers, or (2) TravelCo determines the end consumers are not its customers, but it is making the payment on behalf of Airline (its customer). TravelCo should consider as part of this assessment whether there is an implied promise that it will provide coupons to the end consumer on Airline's behalf (for example, coupons offered as part of a promotion specific to Airline). If the coupons represent consideration payable to a customer, TravelCo would record the coupons as a reduction of its agency commission as it does not receive a distinct good or service in exchange for the payment (see RR 4.6.1). Conversely, the coupons would generally be recorded as a marketing expense if the coupons do not represent consideration payable to a customer.

- A5. Section 5.7 of KPMG's *Revenue Recognition Handbook* (December 2025) 5.7.10 states the following, in part:

5.7.10 Overview

Payments to a customer may relate to goods or services received from the customer, a discount or refund for the goods or services provided to the customer, or a combination of both. As such, the entity needs to evaluate the substance of the payment. Consideration payable to a customer includes cash amounts that an entity pays or expects to pay to the customer. It includes credits or

other items (e.g. a coupon or voucher) that can be applied by the customer against the amount owed to the entity or to other parties that purchase the entity's goods or services from the customer. Consideration payable to a customer also includes share-based instruments (liability- or equity-classified) granted to customers. [606-10-32-25] Entities will also need to evaluate payments made to other parties in the direct chain of distribution. This is because payments to customers include cash payments 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. Additionally, in some cases an entity may conclude that it is appropriate to apply the guidance more broadly to payments made to entities outside the direct distribution chain. [606-10-32-25]

Question 5.7.05 Are payments outside the contract with the customer or direct distribution chain evaluated as consideration payable to a customer?

Interpretive response: It depends. Determining how broadly to evaluate payments within and outside a distribution chain is a matter of judgment.

Payments made to a customer that are not specified in the contract may still represent consideration payable to a customer. An entity should have a process for evaluating whether any other payments made to a customer are consideration payable that requires further evaluation under Topic 606. However, an entity need not always identify and assess all amounts ever paid to a customer to determine if they represent consideration payable to a customer. [TRG 03 -15.28]

Payments within the direct distribution chain – i.e. payments to other parties that purchase the entity's goods or services from the customer – are accounted for as consideration payable to a customer. However, the evaluation of payments to parties outside a direct distribution chain requires judgment and a determination as to whether those incentives represent payments on behalf of the entity's customer. The consideration payable to a customer guidance may apply to these payments in some circumstances. [606-10-32-25]

For example, an entity may have transactions or a business model that results in payments to a customer's customer who is not in the direct distribution chain because that party does not purchase the entity's goods or services. This is common in arrangements in which the entity is an agent connecting its customer to the end user of the customer's goods or services – e.g. a platform or marketing company that connects buyers and sellers may provide incentives to the buyer to increase the buyer's purchases with the seller. Depending on the facts and circumstances, the platform or marketing company may conclude either the buyer or the seller or both are the entity's customers. In these types of business models, the analysis of whether to apply the consideration payable to a customer guidance begins with the entity's conclusion about whether it has more than one customer among the various parties. [TRG 03 -15.28]

However, even when an entity concludes that the party to which it makes incentive payments is not its customer and is not within the direct distribution chain, the entity still evaluates those payments to determine whether they represent payments made on behalf of the entity's customer and, if so, the consideration payable to a customer guidance is applied. [TRG 03 -15.28]

This evaluation considers not only contractual obligations to the customer but also any implied promises to provide incentives to the entity's customer's customer. We understand that the SEC staff believes, in general, that an implied promise for an entity to make payments (i.e. fund discounts) to buyers (i.e. end users) that purchase from the entity's customers exists if the entity's incentive promotion or program is reasonably knowable to the entity's customers. Based on discussions with the SEC staff, an incentive promotion or program may be reasonably knowable to a customer when the benefit is visible to the customer (e.g. via a platform app, website, e-mails, or other forms of communications that are accessible by the customer) such that the customer is reasonably aware that end users of the entity's platform are receiving benefits on purchases and therefore has a reasonable expectation that incentives will be provided to the entity's customer. See Example 5.7.10.

An entity may also make payments to a third party outside the distribution chain on behalf of a customer. The consideration payable to a customer guidance may also apply to these payments in some circumstances (see Question 5.7.45).

- A6. Section 5.7 of EY's Financial reporting developments, a comprehensive guide, Revenue from contracts with customers (ASC 606) (August 2025) states the following:

5.7 Consideration paid or payable to a customer (updated August 2025)

FASB amendments

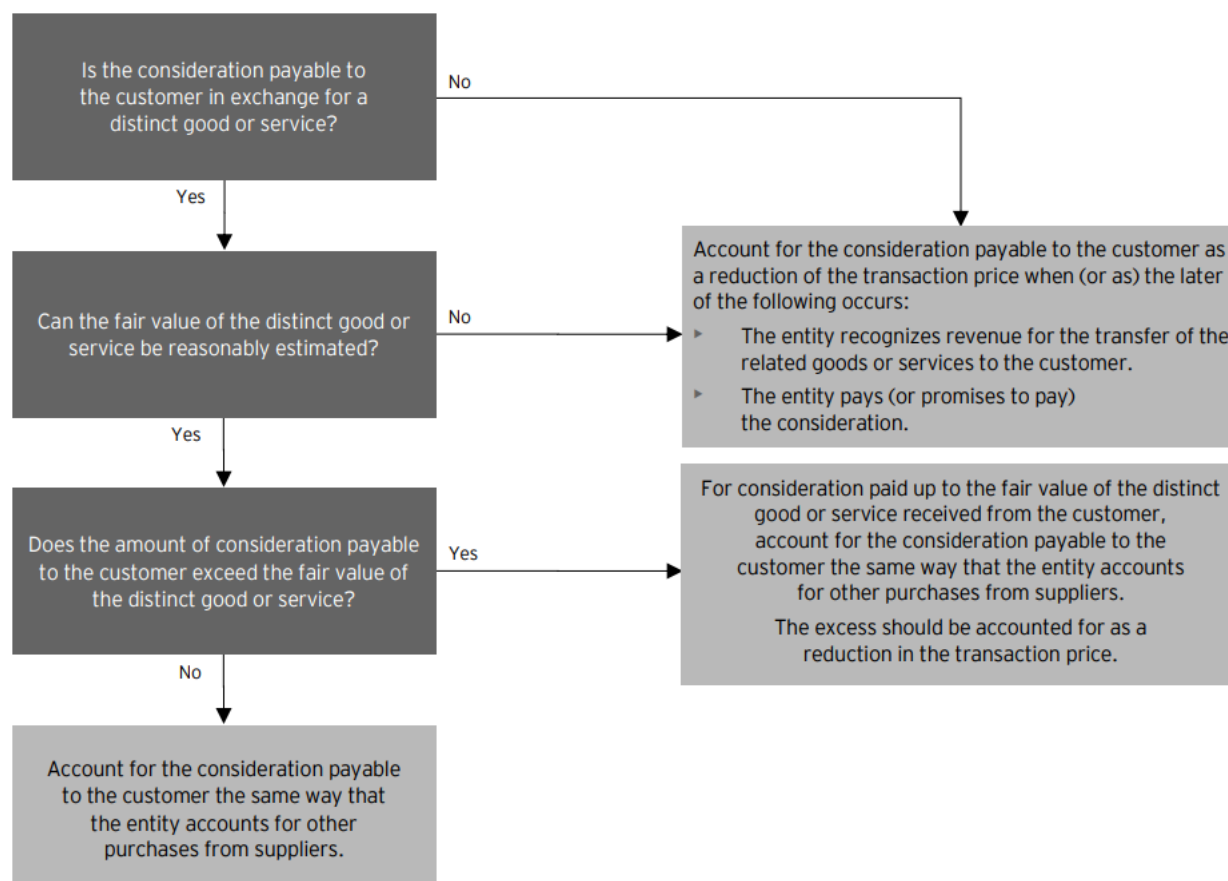
In May 2025, the FASB issued ASU 2025-04, which clarified the accounting for share-based consideration payable to a customer in conjunction with selling goods or services (e.g., customer incentive awards). The ASU revised the definition of a performance condition to include conditions based on a customer's purchases or other parties that purchase the grantor's goods or services from the customer. This is because awards that vest upon direct customer purchases and those that vest upon purchases made by a customer's customer are similar and, therefore, do not warrant different requirements for share-based consideration payable to customers. It also clarified that the guidance on constraining estimates of variable consideration does not apply to share-based consideration payable to a customer that is measured and classified under ASC 718. Rather, the grantor assesses whether an award will vest using only the guidance in ASC 718. To clarify that the guidance applies to both equity instruments and liability-classified share-based consideration, the ASU also replaced the term "equity instruments" with "share-based consideration" in ASC 606. The ASU also eliminated

the policy election in ASC 718 allowing grantors to account for forfeitures of customer awards as they occur. The guidance applies to all reporting entities that issue share-based consideration to a customer in the scope of ASC 606 and is effective for all entities for fiscal years beginning after 15 December 2026, and interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. An entity that adopts the guidance in an interim period will do so as of the beginning of the fiscal year that includes that interim period. The guidance can be applied either on a modified retrospective basis or a retrospective basis.

Many entities make payments to their customers. In some cases, the consideration paid or payable represents purchases by the entity of goods or services offered by the customer that satisfy a business need of the entity. In other cases, the consideration paid or payable represents incentives given by the entity to entice the customer to purchase, or continue purchasing, its goods or services. The standard provides the following guidance for consideration paid or payable to a customer:

[Excerpt from ASC 606 intentionally omitted]

The following flowchart illustrates this guidance:



The standard states that an entity should account for the consideration payable to a customer, regardless of whether the purchaser receiving the consideration is a direct or indirect customer of the entity. This includes consideration payable to any purchasers of the entity's products at any point along the distribution chain. This would include entities that make payments to the customers of resellers or distributors that purchase directly from the entity (e.g., manufacturers of breakfast cereals offer coupons to consumers, even though their direct customers are the grocery stores that sell to consumers). The requirements also apply to entities that derive revenue from sales of services, as well as entities that derive revenue from sales of goods.

Question 5-31 Who is considered an entity's customer when applying the guidance on consideration payable to a customer? [30 March 2015 TRG meeting, agenda paper no. 28 and 13 July 2015 TRG meeting, agenda paper no. 37; FASB staff Q&As, question 26]

This guidance should be applied to all payments made to entities/customers in the distribution chain for that contract. However, they agreed there also could be situations in which the guidance should apply to payments made to any customer of an entity's customer outside the distribution chain if both parties are considered the entity's customers. For example, in an arrangement with a principal, an agent and an end consumer, an agent may conclude that its only customer is the principal, or it may conclude that it has two customers — the principal and the end consumer. Regardless of this assessment, an agent's payment to a principal's customer that was contractually required based on an agreement between the entity (agent) and the principal would represent consideration payable to a customer. Absent similar contract provisions that clearly indicate when an amount is consideration payable, agents will need to evaluate their facts and circumstances to determine whether payments they make to an end consumer should be considered a reduction of revenue or a marketing expense.

Question 5-32 How should an entity that acts as an agent account for incentive payments made to end consumers that are not the entity's customers and are outside the distribution chain?

An entity may make incentive payments to an end consumer that is not the entity's direct customer and is not identified as an indirect customer (e.g., the end consumer does not purchase the entity's goods or services at any point along the distribution chain). Incentive payments of this nature may be common in arrangements where an entity acts as an agent to facilitate the sale of its customer's (i.e., the principal's) goods or services to an end consumer (e.g., incentive payments offered by platform entities). The entity will need to apply significant judgment to determine (1) whether the end consumer is a customer (see section 2.2) and (2) the appropriate accounting treatment for incentive payments made to an end consumer that is not identified as a customer (e.g., whether to account for the payment as a reduction of revenue or as a marketing expense). The entity should first consider whether the payment to the end consumer is in exchange for a distinct good or service

acquired from the end consumer at fair value. If it is, the entity should account for the payment in the same way it accounts for other purchases from suppliers. If the incentive payment is not in exchange for a distinct good or service, the entity must apply significant judgment to determine whether the payment results in a reduction to revenue. A member of the SEC staff discussed this topic in a speech⁶, noting that when determining whether incentive payments should be recorded as a reduction of revenue, it is important to consider whether the company has a contractual or an implied obligation to provide incentives to the end consumer on the seller's behalf. The SEC staff member noted that this includes assessing whether a company is, in substance, providing a price concession to the seller. For example, a company would consider whether "the seller would have a valid expectation that the company would provide incentives to the end user." An entity's customer may have a valid expectation that the payment will be made to the end consumer based on reasonably available information about the entity's incentive program, including written or oral communications (e.g., advertisements, press releases, published policies, customer reporting) and any customary business practices of the entity. Entities will need to carefully consider their facts and circumstances to determine whether a valid expectation exists. Similar to a contractually required obligation, an implied obligation to a customer to provide incentive payments to an end consumer is accounted for as consideration payable to a customer and results in a reduction to the transaction price. In certain arrangements, an entity may make a payment to an end consumer in exchange for a distinct good or service where the payment exceeds the fair value of that good or service. The entity will need to apply significant judgment in these arrangements to determine whether the excess payment represents an implied obligation to its customer. If the entity determines the excess payment is an implied obligation to the customer, then the excess payment should result in a reduction to the transaction price. Given the judgment involved with such arrangements, an entity should consider the disclosure requirements in ASC 606-10-50-17 and 50-20 (see section 10.5.2).

⁶ Remarks by Jonathan Wiggins, Senior Associate Chief Accountant, SEC Office of the Chief Accountant, 6 December 2021. Refer to our publication, 2021 AICPA & CIMA Conference on Current SEC and PCAOB Developments—Compendium of significant accounting and reporting issues.