



Proposed Accounting Standards Update

Issued: October 22, 2026
Comments Due: November 23, 2026

Revenue from Contracts with Customers (Topic 606)

Consideration Payable to a Customer

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 606 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to “Technical Director, File Reference No. 2026-ED700, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until November 23, 2026. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to director@fasb.org, File Reference No. 2026-ED700
- Sending a letter to “Technical Director, File Reference No. 2026-ED700, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The Board is issuing this proposed Update to clarify when payments made on behalf of a customer, or to a customer of an entity's customer, should be accounted for as consideration payable to a customer under Topic 606, Revenue from Contracts with Customers. For example, payments to a customer of an entity's customer may arise when a platform provides credits, rebates, or discounts directly to end users to encourage purchases from sellers that are the platform's customers, and payments made on behalf of a customer may arise when a retailer pays a third-party bank to enable its customer to obtain interest-free financing for a qualifying purchase.

Stakeholders have indicated that there are differing interpretations of when payments made to parties outside the direct distribution chain, such as payments made to parties that do not purchase the entity's goods or services either directly from the entity or indirectly through the entity's customer, are consideration payable to a customer. Accordingly, stakeholders noted that economically similar payments may be accounted for differently (either as a reduction of revenue or as an expense), resulting in diversity in practice.

To address stakeholders' concerns, the amendments in this proposed Update would clarify the consideration payable to a customer guidance.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to all entities that make payments on behalf of a customer, or to a customer of an entity's customer, in connection with a revenue contract accounted for under Topic 606.

What Are the Main Provisions, How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP), and Why Would They Be an Improvement?

Topic 606 requires that payments to an entity's customers, or to other parties that purchase the entity's goods or services from the customer, be accounted for as consideration payable to a customer. Consideration payable to a customer is accounted for as a reduction of the transaction price and, therefore, of revenue unless the payment is in exchange for a distinct good or service that the customer transfers to the entity. However, Topic 606 does not explicitly address when payments made on behalf of a customer, or to a customer of an entity's customer that is outside the direct distribution chain, should be consideration payable to a customer under Topic 606.

The amendments in this proposed Update would specify that payments made on behalf of a customer, or to a customer of an entity's customer, should be accounted for as consideration payable to a customer when made in connection with the entity satisfying its promise to the customer if (1) the entity has explicitly promised to make the payment or (2) the customer has a reasonable expectation that the entity will make the payment because the entity has implicitly promised to do so or the payment represents an in-substance price concession. The proposed amendments would not otherwise affect the existing guidance on consideration payable to a customer, including determining whether consideration payable to a customer is in exchange for a distinct good or service.

The amendments in this proposed Update would (1) improve the decision usefulness of financial reporting information by promoting more consistent accounting for economically similar payments, (2) reduce diversity in practice by clarifying when payments should be accounted for as consideration payable to a customer under Topic 606, and (3) reduce the cost and complexity of applying current GAAP by providing a clearer framework for evaluating those payments.

What Are the Transition Requirements and When Would the Amendments Be Effective?

An entity would be permitted to apply the amendments in this proposed Update using either a modified prospective approach or a modified retrospective approach.

Under the modified prospective approach, an entity would apply the amendments in this proposed Update to payments made or promised after the adoption date. For payments made or promised before the adoption date, an entity would continue applying current GAAP. No cumulative-effect adjustment would be recorded to the opening balance of retained earnings (or other appropriate components of equity or net assets in the balance sheet) for any period presented, and the comparative periods presented would not be adjusted.

Under the modified retrospective approach, an entity would apply the amendments in this proposed Update to payments made or promised after the beginning of the earliest period presented in the financial statements that include the adoption of the proposed amendments. The financial statements for each period presented would be adjusted to reflect the period-specific effects of applying the new guidance. No cumulative-effect adjustment would be recorded to the opening balance of retained earnings (or other appropriate components of equity or net assets in the balance sheet) for the earliest period presented.

Early adoption would be permitted in an interim or annual reporting period in which financial statements have not yet been issued or made available for issuance. If an entity adopts the amendments in this proposed Update in an interim reporting period, it must adopt them as of the beginning of the annual reporting period that includes that interim reporting period.

The effective date will be determined after the Board considers stakeholder feedback on the amendments in this proposed Update.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below.

Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Overall

Question 1: Do you agree with the guidance on consideration payable to a customer accounted for under Topic 606 in the amendments in this proposed Update? Are the proposed amendments clear and operable? If not, what changes would you suggest? Do you anticipate any auditing challenges? Please explain why or why not.

Question 2: The Board expects that the proposed amendments would primarily affect entities that make payments on behalf of a customer or to a customer of an entity's customer that is outside the entity's direct distribution chain, such as entities operating on a platform. Do you agree with the Board's assessment of the arrangements and entities expected to be affected by the proposed amendments? If not, what other arrangements or entities may be significantly affected or would not be affected but should be considered? Please explain.

Question 3: The Board expects that the proposed amendments may result in a reclassification of amounts between expense and revenue. Do you expect that the proposed amendments could have other effects, such as changes to the timing or measurement of revenue or expense? Please explain why or why not and describe any other potential effects.

Negative Revenue

Question 4: Negative revenue can arise when consideration payable to a customer reduces revenue in an amount that exceeds consideration received from the customer (see paragraph BC20 for additional background information). Would the proposed amendments increase the prevalence of negative revenue? If so, how pervasive and material would negative revenue be in practice, and should the Board consider standard-setting efforts to address negative revenue? Please explain why or why not. If the Board were to pursue standard setting on negative revenue:

- a. Should negative revenue be presented as expense in some or all circumstances? If so, should expense presentation be required or optional?
- b. What unit of account should be used to assess negative revenue—for example, the contract level or the customer level?
- c. If negative revenue is assessed on a cumulative basis, how should the cumulative amount be determined—for example, from inception of the customer relationship or on a year-to-date basis?
- d. Would disclosures about negative revenue be decision useful? If so, what information should be disclosed? Would the expected benefits of such a disclosure justify its expected costs?

Transition and Effective Date

Question 5: The proposed transition requirements would allow entities to apply the proposed amendments on a modified prospective basis to payments made or promised after the adoption date or on a modified retrospective basis to payments made or promised after the beginning of the earliest period presented in the financial statements that include the adoption of the proposed amendments.

- a. Are the proposed transition requirements clear and operable? Please explain why or why not. If not, what transition method would be more appropriate and why?
- b. The proposed transition requirements would apply to payments that are made or promised, rather than to contracts. Do you agree with using payments made or promised for applying the proposed amendments under the transition methods? Is this approach clear and operable? Please explain why or why not. If not, what alternative approach should the Board consider and why?
- c. Which transition method do you anticipate entities electing to apply the proposed amendments? Is it necessary and/or beneficial to provide an option for a modified prospective application? Please explain why or why not.
- d. For investors, would one of the transition approaches provide more decision-useful information than the other? Would the transition disclosures be decision useful? Please explain why or why not.

Question 6: How much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business

entities be different from the effective date for public business entities? Please explain why or why not. If so, how much additional time would you recommend for entities other than public business entities?

Question 7: Early adoption of the proposed amendments would be permitted. Do you agree that early adoption should be permitted? Do you agree that an entity that adopts the proposed amendments in an interim period should be required to adopt them as of the beginning of the annual reporting period that includes that interim reporting period? Please explain why or why not.

Benefits and Costs

Question 8: Would the expected benefits of the proposed amendments justify the expected costs? If not, please describe the nature and magnitude of those costs, differentiating between one-time costs and recurring costs.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–4. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 606-10

2. Amend paragraphs 606-10-32-25, 606-10-55-93(j), and 606-10-55-251 and add paragraphs 606-10-32-25B through 32-25C and 606-10-55-254A through 55-254G and their related headings, with a link to transition paragraph 606-10-65-4, as follows:

Revenue from Contracts with Customers—Overall

Measurement

> Determining the Transaction Price

• > Consideration Payable to a Customer

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 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 ~~606-10-25-19~~~~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. See paragraphs 606-10-32-25B through 32-25C for guidance applicable to payments made on behalf of a customer or to a customer of an entity's customer.

606-10-32-25B Consideration payable to a customer (see paragraph 606-10-32-25) also includes payments made on behalf of a customer, or to a customer of an entity's customer, that are made in connection with an entity satisfying its promise to its customer (see paragraph 606-10-32-25C).

606-10-32-25C A payment made on behalf of a customer, or to a customer of an entity's customer, is made in connection with an entity satisfying its promise to its customer if either of the following conditions is present:

- a. An explicit promise exists for the entity to make a payment on behalf of the customer, or to a customer of the entity's customer.
- b. The customer has a reasonable expectation that the entity will make a payment on behalf of the customer, or to a customer of the entity's customer, because either an implicit promise exists or the payment represents an in-substance price concession. A promise may be implied by an entity's customary business practices, published policies, or specific statements. Examples of payments representing in-substance price concessions include but are not limited to incentives, rebates, credits, and direct cash payments.

Implementation Guidance and Illustrations

> Illustrations

606-10-55-93 The Examples are organized as follows:

j. Consideration Payable to a Customer

Example 32—Consideration Payable to a Customer

Example 32A—Payments Made to a Customer of an Entity's Customer

Example 32B—Payments Made on Behalf of a Customer

• > **Consideration Payable to a Customer**

606-10-55-251 Examples~~Example~~ 32 through 32B illustrate~~illustrates~~ the guidance in paragraphs 606-10-32-25 through 32-27 on consideration payable to a customer.

• • > **Example 32A—Payments Made to a Customer of an Entity's Customer**

• • • > **Case A—Explicit Promises**

606-10-55-254A An entity, a platform company, acts as an agent and arranges for goods to be provided by sellers to buyers in exchange for a percentage of the total price charged for each order. As part of the written contract between the entity and a seller, the entity agrees to provide incentives to buyers in the form of a \$10 credit when a buyer purchases a good from the seller for the first time on the platform. The seller is aware of the credits and expects that the credits will be provided to the first-time buyers of its goods.

606-10-55-254B The entity identifies sellers as its customers and does not identify buyers as its customers. The contract meets the criteria in paragraph 606-10-25-1, and the entity accounts for the contract with the customer in accordance with the guidance in this Topic.

606-10-55-254C The entity's promise to provide credits to buyers that are the customers of the entity's customer (that is, the seller's customers) represents an explicit contractual promise to the seller (see paragraphs 606-10-32-25B and 606-10-32-25C(a)). Therefore, the entity concludes that the credits are consideration payable to a customer, and the entity should evaluate paragraphs 606-10-32-25 through 32-27 to determine how to account for those credits, including whether the credits are in exchange for a distinct good or service.

• • • > **Case B—Implicit Promises**

606-10-55-254D Assume the same facts as in Case A, except that the written contract between the entity and the seller does not explicitly require that the entity provide the credits to the buyers upon the first purchase of the seller's goods. However, the entity typically offers a \$10 credit upon the first purchase of any goods listed on its platform and markets the availability of credits to first-time buyers.

606-10-55-254E The seller can access the entity's marketing materials and is aware that credits are being offered to buyers (that is, the seller's customers) to attract first-time buyers to the entity's platform. Although those credits are not explicitly required in the written contract between the entity and the seller, the seller reasonably expects that the entity will provide credits to first-time buyers as an incentive to purchase the seller's goods through the entity's platform because the entity's customary business practices and published marketing materials have created an implicit promise that it will do so (see paragraphs 606-10-32-25B and 606-10-32-25C(b)). Therefore, the entity concludes that the credits are consideration payable to a customer, and the entity should evaluate paragraphs 606-10-32-25 through 32-27 to determine how to account for those credits, including whether the credits are in exchange for a distinct good or service.

• • > Example 32B—Payments Made on Behalf of a Customer

606-10-55-254F An entity, a retailer, is offering a promotional 0 percent interest rate for 6-month financing to customers that purchase more than \$2,000 of goods and obtain financing through Bank A. As part of the promotion, the entity agrees to pay Bank A an amount equivalent to the market interest rate for six-month loans on behalf of eligible customers. Bank A underwrites and issues the loans. The entity does not have control over Bank A's underwriting process and is only able to pay interest on behalf of a customer if the loan is approved by Bank A.

606-10-55-254G The interest payments are made on behalf of a customer and represent an in-substance price concession to enable eligible customers to obtain a financing benefit on qualifying purchases (see paragraphs 606-10-32-25B and 606-10-32-25C(b)). Therefore, the entity concludes that the interest payments made on behalf of the customer to Bank A are consideration payable to a customer, and the entity should evaluate paragraphs 606-10-32-25 through 32-27 to determine how to account for the interest payments, including whether the interest payments are in exchange for a distinct good or service.

3. Add paragraph 606-10-65-4 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 202X-XX, Revenue from Contracts with Customers (Topic 606): Consideration Payable to a Customer

606-10-65-4 The following represents the transition and effective date information related to Accounting Standards Update No. 202X-XX, *Revenue from Contracts with Customers (Topic 606): Consideration Payable to a Customer*.

Effective date and early adoption

- a. All entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after [date to be inserted after exposure] and interim reporting periods within those annual reporting periods.
- b. Early adoption of the pending content that links to this paragraph is permitted in an interim or annual reporting period in which financial statements have not yet been issued or made available for issuance. If an entity adopts the pending content that links to this paragraph in an interim reporting period, the entity shall apply the pending content as of the beginning of the annual reporting period that includes that interim reporting period.

Transition methods

- c. An entity shall apply the pending content that links to this paragraph using either of the following transition methods:
 - 1. On a modified prospective basis to payments paid or promised on or after the initial application date of the pending content that links to this paragraph. Prior-period results shall not be restated, and there shall be no cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the balance sheet) as of the beginning of any period presented.
 - 2. On a modified retrospective basis to payments paid or promised after the beginning of the earliest period presented. All prior-period results shall be restated for payments paid or promised after the beginning

of the earliest period presented. There shall be no cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the balance sheet) as of the beginning of the earliest period presented.

Transition disclosures

- d. An entity that applies the pending content that links to this paragraph on a modified prospective basis in accordance with (c)(1) shall disclose the following in both the interim reporting period (if applicable) and the annual reporting period of the change:
 - 1. The nature of and reason for the change in accounting principle, including an explanation of the newly adopted accounting principle
 - 2. The method of applying the change.
- e. An entity that applies the pending content that links to this paragraph on a modified retrospective basis in accordance with (c)(2) shall disclose the following in both the interim reporting period (if applicable) and the annual reporting period of the change:
 - 1. The nature of and reason for the change in accounting principle, including an explanation of the newly adopted accounting principle
 - 2. The method of applying the change
 - 3. The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line items, and any affected per-share amounts for any prior periods retrospectively adjusted.

Amendments to Subtopic 718-10

- 4. Amend paragraph 718-10-15-5A, with a link to transition paragraph 606-10-65-4, as follows:

Compensation—Stock Compensation—Overall

Scope and Scope Exceptions

> Transactions

718-10-15-5A ~~Share-based consideration granted to a customer (or to other parties that purchase the grantor's goods or services from the customer) shall~~

be measured and classified in accordance with the guidance in this Topic (see paragraph 606-10-32-25A) and reflected as a reduction of the transaction price and, therefore, of revenue in accordance with paragraph 606-10-32-25 unless the consideration is in exchange for a distinct good or service. This includes share-based consideration granted to other parties that purchase the grantor's goods or services from the customer and share-based consideration that is granted on behalf of a customer, or to a customer of an entity's customer, in connection with an entity satisfying its promise to its customer (see paragraphs 606-10-32-25 and 606-10-32-25B through 32-25C). If share-based payment awards are granted to a customer as payment for a distinct good or service from the customer, then the grantor shall apply the guidance in paragraph 606-10-32-26. See also paragraph 606-10-55-88AB.

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board.

Richard R. Jones, *Chair*
Hillary H. Salo, *Vice Chair*
Frederick L. Cannon
Susan M. Cospers
Marsha L. Hunt
Dr. Joyce T. Joseph
Catherine M. Shakespeare

Background Information and Basis for Conclusions

Introduction

BC1. The Emerging Issues Task Force (EITF) Agenda Committee added a project to the EITF's agenda to address when payments made on behalf of a customer, or to a customer of an entity's customer, should be accounted for as consideration payable to a customer under Topic 606, Revenue from Contracts with Customers. Stakeholders have observed diversity in practice in determining whether payments made on behalf of a customer, or to a customer of an entity's customer outside the direct distribution chain, are consideration payable to a customer. Payments determined to be consideration payable to a customer are accounted for as a reduction of revenue unless the payment to the customer is in exchange for a distinct good or service transferred to the entity. Accordingly, stakeholders noted that economically similar payments may be accounted for differently (either as a reduction of revenue or as an expense), resulting in diversity in practice.

BC2. The EITF discussed the issue, developed a proposed solution, and recommended that the Board add a project to its technical agenda to clarify the consideration payable to a customer guidance in Topic 606. Specifically, the EITF recommended that an entity account for a payment made on behalf of a customer, or to a customer of an entity's customer, as consideration payable to a customer when the payment is made in connection with the entity's satisfaction of its promise to the customer if (a) an explicit promise exists that such a payment would be made or (b) the customer has a reasonable expectation that the entity will make such a payment because either an implicit promise exists or the payment represents an in-substance price concession.

BC3. When deciding to add a project to its agenda, the Board also considered stakeholder feedback from the 2025 FASB Invitation to Comment, *Agenda Consultation* (the 2025 ITC). Several respondents identified consideration payable to a customer as an area warranting priority standard-setting consideration, noting challenges in evaluating arrangements that include multiple parties. Challenges cited included identifying the customer(s) or the customer of an entity's customer(s) in the contract, identifying all the

parties in the distribution chain, and evaluating payments to parties outside the distribution chain.

BC4. The following summarizes the EITF's considerations in reaching its recommendation and the Board's basis for supporting the amendments in this proposed Update. It also includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC5. Topic 606 requires that payments to an entity's customers, or to other parties that purchase the entity's goods or services from the customer, be accounted for as consideration payable to a customer. Paragraph 606-10-32-25 states that consideration payable to a customer includes cash amounts, credits or other items that can be applied against amounts owed, and share-based consideration that an entity pays, or expects to pay, to its customer 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 is in exchange for a distinct good or service that the customer transfers to the entity. If a payment is not accounted for as consideration payable to a customer, the entity would account for the payment in accordance with other applicable GAAP, which may result in the payment being presented as an expense rather than as a reduction of revenue.

BC6. Stakeholders have provided feedback that this issue arises frequently in platform and intermediary business models in which an entity provides incentives, such as credits, rebates, or discounts, directly to end users to encourage demand, even though the entity's contractual customer is a merchant, seller, or service provider. Therefore, in connection with satisfying its promise to its customer, an entity may make payments that provide a benefit to its customer even though the customer does not directly receive those payments. For example, a platform company may arrange for a merchant (the platform company's customer) to sell goods to end users and provide a credit to end users on their first purchase through the platform. Stakeholders have noted that questions arise about whether the payment to the end user should be accounted for as consideration payable to a customer.

BC7. Stakeholders observed that current GAAP does not clearly address payments made on behalf of a customer or to customers of an entity's customer that are outside the direct distribution chain. As a result, stakeholders have developed differing interpretations of when those payments fall within the consideration payable to a customer guidance under Topic 606, contributing to diversity in practice.

Benefits and Costs

BC8. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the benefits and costs of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC9. On the basis of the EITF discussions, the Board expects that the amendments in this proposed Update would (a) improve the decision usefulness of financial reporting information by promoting more consistent accounting for economically similar payments, (b) reduce diversity in practice by clarifying when payments should be accounted for as consideration payable to a customer under Topic 606, and (c) reduce the cost and complexity of applying current GAAP by providing a clearer framework for evaluating those payments. Additionally, EITF members, including an investor, emphasized the importance of revenue trends in investors' analyses and observed that greater consistency in the presentation of revenue would enhance comparability across entities.

BC10. The Board does not anticipate that entities would incur significant costs to implement the amendments in this proposed Update because the proposed amendments are narrowly focused and use concepts that already exist in Topic 606, including implicit promises, reasonable expectations, and in-substance price concessions. Additionally, on the basis of EITF discussions, the Board

expects that, generally, the proposed amendments would be consistent with current practice. Therefore, the Board expects that the proposed amendments would not significantly increase operational complexity or ongoing compliance costs.

BC11. The Board acknowledges that entities may incur costs to identify affected payments and to set up and maintain systems, processes, and procedures to track those payments. However, the Board expects those costs to be limited because the amendments in this proposed Update would apply only to payments made in connection with an entity satisfying its promise to a customer under a revenue contract accounted for under Topic 606. Accordingly, entities would not be required to identify and evaluate all payments made to third parties, including payments that are unrelated to a revenue contract with a customer.

BC12. For those reasons, the Board concluded that the expected benefits of the amendments in this proposed Update would justify the expected costs.

Basis for Conclusions

Why the EITF Added the Project to Its Agenda

BC13. EITF members observed that current GAAP does not clearly address when payments made on behalf of a customer, or to a customer of an entity's customer, should be accounted for as consideration payable to a customer under Topic 606 when those payments are made to parties beyond the direct distribution chain. As a result, stakeholders have reached differing interpretations about whether economically similar payments should be accounted for as reductions of revenue or as expenses. For those reasons, the EITF added a project to its agenda to address the consideration payable to a customer guidance.

Consideration Payable to a Customer

BC14. The EITF recommended and the Board agreed that the consideration payable to a customer guidance would apply to payments made on behalf of a customer and to payments made to a customer of an entity's customer. The amendments in this proposed Update would require that those payments be accounted for as consideration payable to a customer under Topic 606 when

the payments are made in connection with the entity satisfying its promise to its customer if either of the following conditions is met:

- a. An explicit promise exists for the entity to make a payment on behalf of the customer, or to a customer of the entity's customer.
- b. The customer has a reasonable expectation that the entity will make a payment on behalf of the customer, or to a customer of the entity's customer, because either an implicit promise exists or the payment represents an in-substance price concession.

BC15. EITF members noted that the intent of the amendments in this proposed Update would be to identify which payments made on behalf of a customer, or to a customer of an entity's customer, should be evaluated under the consideration payable to a customer guidance in Topic 606. EITF members also noted that the proposed amendments would not address or change the consideration payable to a customer guidance once a payment is within that framework (for example, the determination of whether the payment is in exchange for a distinct good or service). Furthermore, the proposed amendments focus on whether an obligation to make a payment should be considered part of the revenue contract with the customer accounted for under Topic 606 and, therefore, emphasize the relationship between the payment and the entity's promise to its customer rather than solely the identity of the payment recipient. Accordingly, EITF members observed that this approach would not require that an entity identify and document all payments made to third parties or to customers of an entity's customers, which could be overly burdensome and costly.

BC16. The Board agreed with the EITF members' views and recommendation to pursue an approach that builds on existing Topic 606 concepts, including implicit promises, reasonable expectations, and in-substance price concessions (see paragraph BC17). EITF members observed that this approach is generally consistent with previous discussions of the Transition Resource Group for Revenue Recognition and current practice. The Board noted that using existing Topic 606 concepts would provide clarity, while retaining the appropriate level of judgment.

BC17. Topic 606 includes guidance on implicit promises, reasonable expectations, and in-substance price concessions. For example, under paragraph 606-10-25-16, a contract with a customer may include promises implied by an entity's customary business practices, published policies, or

specific statements if those promises create a reasonable expectation of the customer. Similarly, under paragraph 606-10-32-7, promised consideration may be variable if the customer has a valid expectation that the entity will accept an amount of consideration that is less than the price stated in the contract. The Board considered those Topic 606 concepts in developing the amendments in this proposed Update.

BC18. The EITF recommended and the Board agreed that the amendments in this proposed Update would apply to all entities and would be required rather than optional. The Board observed that the issue is relevant to both public business entities and entities other than public business entities. The Board also noted that required application would provide more consistent accounting for economically similar payments and improve comparability of revenue information among entities, which is decision useful because revenue is an important financial reporting measure for investors and other financial statement users.

BC19. The Board expects that the amendments in this proposed Update would primarily affect entities that make payments on behalf of a customer, or to a customer of an entity's customer, such as entities that operate on a platform.

Negative Revenue

BC20. Negative revenue can arise when consideration payable to a customer reduces revenue in an amount that exceeds consideration received from the customer. Stakeholders who responded to the 2025 ITC identified challenges in accounting for negative revenue because Topic 606 does not explicitly address whether such amounts should continue to be presented as negative revenue or instead be reclassified as an expense. Given the interaction between consideration payable to a customer and negative revenue, the Board has included a question in this proposed Update to obtain additional feedback on negative revenue.

Reference Clarification

BC21. The amendments in this proposed Update also would correct the cross-reference in paragraph 606-10-32-25 to the guidance on distinct goods or services. Specifically, the proposed amendments would update the reference from paragraphs 606-10-25-18 through 25-22 to paragraphs 606-10-

25-19 through 25-22 to align with that guidance. This proposed amendment is clarifying in nature and would not change the substance or application of the guidance.

Illustrative Examples

BC22. The amendments in this proposed Update provide several illustrative examples related to evaluating whether payments made on behalf of a customer and to a customer of an entity's customer would be consideration payable to a customer. The Board observed that the examples would help clarify the application of the proposed amendments to common fact patterns. The Board (a) does not intend for the illustrative examples to address every possible fact pattern and (b) expects entities to evaluate their individual facts and circumstances when applying the proposed amendments. The Board intends the examples to be for illustrative purposes only and to promote more consistent application of the proposed amendments.

Additional Guidance on Reasonable Expectations

BC23. The Board considered whether to provide additional guidance on assessing reasonable expectations in the amendments in this proposed Update. However, the Board ultimately decided not to add further guidance as part of the proposed amendments because "reasonable expectations" is a concept that already exists in Topic 606, such as in identifying performance obligations. The Board noted that the assessment of reasonable expectations under Topic 606 requires judgment and is based on the facts and circumstances and the substance of the arrangement, rather than on a bright-line threshold. The Board observed that additional guidance developed for purposes of evaluating consideration payable to a customer could introduce incremental subjectivity or complexity and could have unintended consequences in applying other areas of Topic 606. Furthermore, the Board acknowledges that application of the proposed amendments, including assessing reasonable expectations, would require judgment, which is inherent in GAAP.

Other Alternatives Considered but Not Recommended

Predominant Benefit Approach

BC24. The EITF considered, but did not recommend, an approach under which payments made on behalf of a customer, or to a customer of an entity's customer, would be accounted for 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. EITF members observed that this approach would introduce a predominant-benefit assessment that is not grounded in existing Topic 606 concepts. EITF members also noted that many payments may benefit both the entity and its customer and, therefore, determining which party predominantly benefits from the payment could be subjective and difficult to apply. Furthermore, EITF members noted that this approach could result in certain payments that are not economically related to a revenue contract being accounted for as consideration payable to a customer while excluding other payments that are economically linked to a revenue contract. That is because all payments to a customer of an entity's customer would be subject to the predominant-benefit assessment, regardless of whether the payments relate to a revenue contract.

BC25. The Board agreed with the EITF members' conclusion not to pursue an approach based on whether the customer predominantly benefits from the payment. The Board observed that this approach would add complexity and could be challenging to apply. Therefore, the Board decided not to consider this approach further.

All Payments Approach

BC26. The EITF also considered, but did not recommend, an approach under which any payments made on behalf of a customer, or to a customer of an entity's customer, would be accounted for as consideration payable to a customer under Topic 606. EITF members observed that this broader approach could reduce diversity in practice by eliminating certain judgmental assessments, such as whether a payment arises from an implicit promise or represents an in-substance price concession. However, EITF members concluded that this approach could result in unnecessary cost and complexity because entities would need to identify and document a complete population

of payments to third parties or to customers of an entity's customers, including payments that may be unrelated to a revenue contract.

BC27. EITF members observed that this approach could generally result in the same revenue outcome as the amendments in this proposed Update after applying the existing guidance on determining whether a payment is made in exchange for a distinct good or service under Topic 606. However, EITF members were concerned that entities would need to identify, evaluate, and document payments that may not be related to a revenue contract to reach that conclusion, which could be costly and time consuming.

BC28. The Board agreed with the EITF members' conclusion not to recommend an all-payments approach. The Board observed that this approach may generally result in the same outcome as the amendments in this proposed Update but would be broader than necessary and could impose additional costs, complexity, and operability challenges by requiring entities to identify and analyze all payments. Therefore, the Board decided not to consider this approach further.

Transition, Early Adoption, and Effective Date

BC29. The amendments in this proposed Update would permit an entity to apply the proposed amendments by using either a modified prospective approach or a modified retrospective approach. Early adoption would be permitted.

BC30. EITF members discussed several different transition approaches, including prospective application, modified retrospective application, and retrospective application and observed that transition should balance preparer cost and operational complexity with the usefulness of information to investors. Some EITF members supported prospective application because it would be the most practical and least burdensome approach, while others expressed concern that prospective application could impair comparability and disrupt revenue trends. Several members observed that permitting either retrospective or modified retrospective application could provide more comparable revenue information, while acknowledging that applying the amendments in this proposed Update to prior periods could require effort to evaluate historical arrangements or payments.

BC31. The Board considered the EITF members' observations on transition and discussed the different transition methods. Board members acknowledged that revenue is an important financial reporting measure and is used extensively in investor analyses, including trend analyses and revenue-based valuation multiples. Some Board members observed that modified retrospective application would better enable comparability for the periods presented and provide investors with information to understand the effects on revenue.

BC32. Other Board members observed that applying the amendments in this proposed Update to prior periods may result in additional cost and complexity, particularly when entities would need to evaluate prior-period arrangements, reconstruct historical information, or assess payments in more complex arrangements. Those Board members also noted that some affected entities may be newer or rapidly growing businesses for which current-period information may be the most relevant to investors. Furthermore, the Board acknowledged that some entities may already reach similar outcomes under existing guidance and, therefore, the expected costs of evaluating prior periods may exceed the expected benefits in some cases.

BC33. After considering the EITF discussion, the Board decided to permit entities to apply the amendments in this proposed Update using either of the following transition methods:

- a. *Modified prospective transition*—Under this approach, an entity would apply the proposed amendments to payments made or promised after the adoption date and continue applying current GAAP to payments made or promised before the adoption date. No cumulative-effect adjustment would be recorded to the opening balance of retained earnings (or other appropriate components of equity or net assets in the balance sheet) for any period presented, and the comparative periods presented would not be adjusted.
- b. *Modified retrospective transition*—Under this approach, an entity would apply the proposed amendments to payments made or promised after the beginning of the earliest period presented in the financial statements that include the adoption of the proposed amendments. The financial statements for each period presented would be adjusted to reflect the period-specific effects of applying the new guidance. No cumulative-effect adjustment would be recorded to the opening balance of retained

earnings (or other appropriate components of equity or net assets in the balance sheet) for the earliest period presented.

The Board concluded that permitting both methods would balance the benefits of comparable revenue information with the costs and operational complexity of applying the proposed amendments to prior periods.

BC34. The Board decided to base the transition amendments in this proposed Update on payments made or promised rather than on whether a contract is new, existing, or completed. The Board observed that applying transition at the contract level may create operational challenges, including identifying new contracts or completed contracts, evaluating contract modifications, and applying the proposed amendments to arrangements governed by master service agreements. The Board concluded that focusing on payments made or promised would provide a clearer population of transactions to evaluate.

BC35. The Board decided that early adoption would be permitted in an interim or annual reporting period and that if an entity adopts the amendments in this proposed Update in an interim reporting period, the entity would be required to adopt them as of the beginning of the annual reporting period that includes that interim reporting period. The Board concluded that requiring application as of the beginning of the annual reporting period would improve comparability among interim reporting periods within the same annual reporting period and avoid applying different accounting to similar payments during a single annual reporting period.

BC36. The Board decided that if an entity elects to apply the amendments in this proposed Update on a modified prospective basis, the entity would be required to disclose the following in both the interim reporting period (if applicable) and the annual reporting period of initial application:

- a. The nature of and reason for the change in accounting principle, including an explanation of the newly adopted accounting principle
- b. The method of applying the change.

BC37. The Board decided that if an entity elects to apply the amendments in this proposed Update on a modified retrospective basis, the entity would be required to disclose the following in both the interim reporting period (if applicable) and the annual reporting period of initial application:

- a. The nature of and reason for the change in accounting principle, including an explanation of the newly adopted accounting principle
- b. The method of applying the change
- c. The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line items, and any affected per-share amounts for any prior periods retrospectively adjusted.

BC38. The Board will determine the effective date after it considers stakeholder feedback on the amendments in this proposed Update.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.