IFRS

STAFF PAPER

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IFRS Interpretations Committee Meeting

Project	**IFRIC 12 *Service Concession Arrangements***
Paper topic	Payments made by an operator to a grantor

CONTACT(S) Jawaid Dossani jdossani@ifrs.org +44 (0)20 7332 2742

Introduction

1. The IFRS Interpretations Committee ('the Interpretations Committee') received a request to address the accounting for payments made by an operator in a service concession arrangement within the scope of IFRIC 12 *Service Concession Arrangements*.

2. Specifically, the submitter asked the Interpretations Committee to clarify in what circumstances (if any) payments to be made by an operator to a grantor under the service concession arrangement should:

   (a) be recognised at the start of the concession as an asset with an obligation to make the related payments; or

   (b) be treated as executory in nature, to be recognised over the term of the concession arrangement.

3. There are a number of examples of contractual payments that operators are obliged to make in order to fulfil their obligations under service concession arrangements ('concession payments'). These include, but are not limited to:

   (a) payments to the grantor or third parties for the use of tangible assets ('right-of-access payments'); and

   (b) fees payable to the grantor by the operator for the right to operate the concession ('concession fees'). The concession fees can be fixed or variable depending on the specific terms of the service concession arrangement.

4. This project, together with the project on variable payments for the separate purchase of property, plant and equipment (PPE) and intangible assets, was put on hold pending completion of the redeliberations on the proposals in the *Leases* Exposure Draft (the '*Leases* ED').

5. The IASB has substantially completed its redeliberations of the proposals in the *Leases* ED. We have also updated our outreach with constituents on this issue. The objective of this paper is to assist the Interpretations Committee in forming a view on how best to take this project forward. We have included the results of our outreach together with a summary of the discussions and tentative decisions to date.

Background and discussions to date

6. The Interpretations Committee has discussed this issue over several meetings. In its previous meetings, it discussed the accounting for fixed and variable payments and tentatively decided that:

   (a) if the concession payment gives the operator a right to a good or service that is distinct from the service concession arrangement, the operator should account for that distinct good or service in accordance with the applicable Standard.

   (b) when the concession payment is linked to the right of use of a tangible asset, the operator should use judgement to determine whether the operator obtains control of the right of use of the asset. If the operator controls the right of use, then that element of the concession arrangement would be considered to be an embedded lease within the scope of IAS 17 *Leases*.

   (c) when the concession payment is linked to the right of use of a tangible asset, but the arrangement does not represent an embedded lease, then the right-of-access payment should be analysed in the same way as a concession fee (discussed further in (d)).

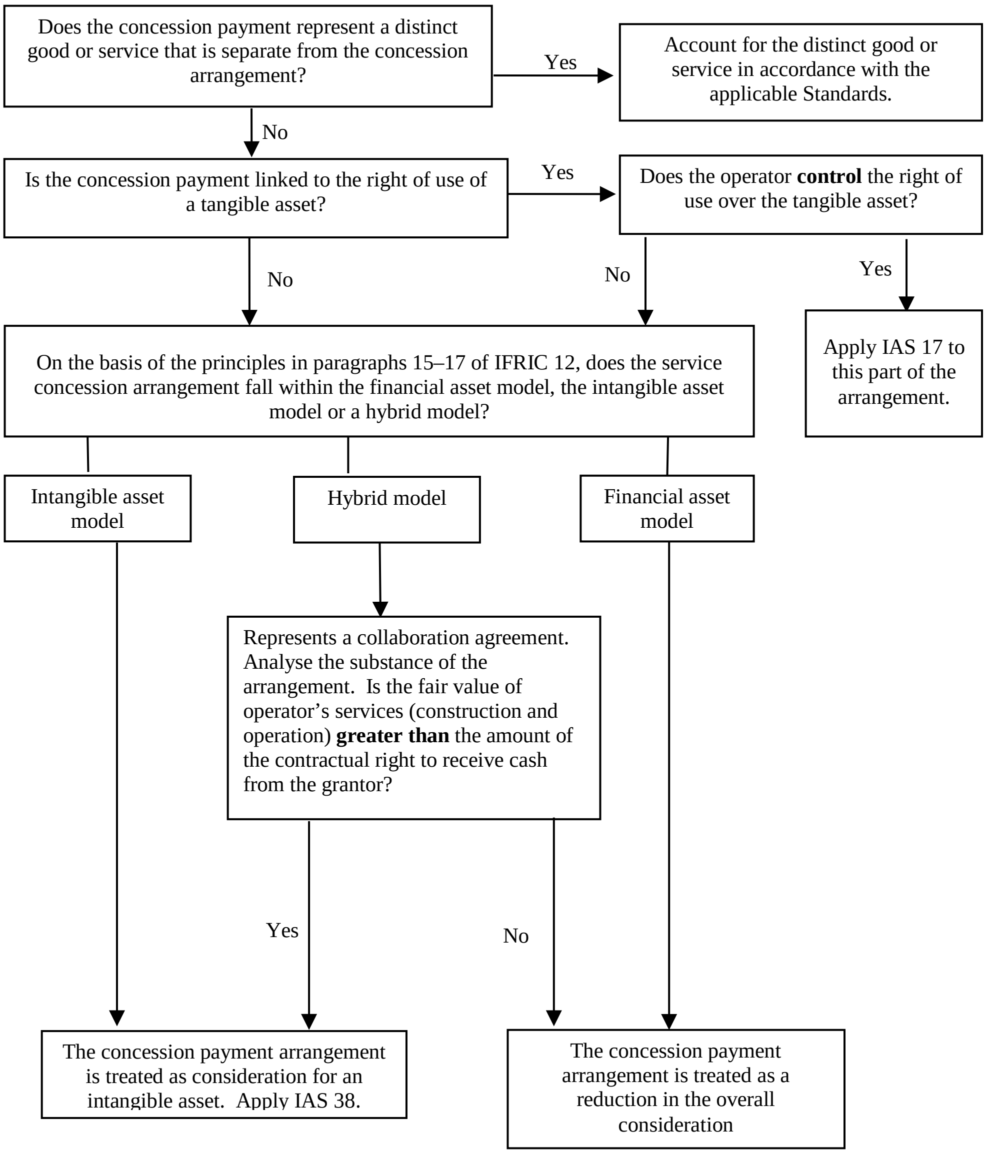
(d) if the concession payment does not give the operator a right to a distinct good or service or a right of use that meets the definition of a lease, the type of service concession arrangement should be considered to help an operator determine the accounting for the concession payment:

(i) if the service concession results in the operator having a contractual right to receive cash from only the grantor (ie the financial asset model in IFRIC 12 applies), then the concession payment is an adjustment to the overall revenue consideration;

(ii) if the service concession arrangement results in the operator having only a right to charge users of the public service (ie the intangible asset model in IFRIC 12 applies), then the concession payment represents consideration for the concession right (ie part of the cost of the intangible asset recognised); and

(iii) if the operator has both a right to charge users of the public service and a contractual right to receive cash from the grantor (ie the in-substance guarantee from the grantor for the operator’s services), then the amount of the contractual right to receive cash from the grantor needs to be compared with the fair value of the operator’s services to help the operator in making the judgement of whether the concession payment represents an adjustment to the overall revenue consideration or consideration for the concession right intangible asset.

7. The following flowchart summarises the discussions and decisions of the Interpretations Committee to date. Further detailed discussions on these issues can be found in the staff papers for the Interpretations Committee meetings in March 2012 and May 2012. A brief summary of the rationale behind the conclusions is also discussed in the following paragraphs.



8. The Interpretations Committee noted that a service concession arrangement may be a multiple-element arrangement. The analysis noted that judgement is required to identify the elements of the arrangement and determine whether they should be accounted for separately. In particular, judgement is required to assess whether by making the concession payments, the operator is acquiring distinct goods or services that are separate from the concession arrangement, in which case they should be separated from the service concession arrangement and accounted for in accordance with the relevant Standards.

9. The Interpretations Committee noted that when the concession payment is linked to the right of use of a tangible asset, the operator should use judgement to determine

whether the operator obtains control of the right of use of the asset. If the operator controls the right of use, then that element of the concession arrangement would be considered to be an embedded lease within the scope of IAS 17.

10. When concession payments cannot be associated with an element of the arrangement that is distinct and that can be accounted for separately, the Interpretations Committee noted that the payments should be analysed together with the other elements of the service concession arrangement. When this is the case, the type of service concession arrangement impacts the accounting for the concession payments as follows:

    (a) when the operator has only a right to charge the grantor, the concession fee should be treated as an adjustment to the overall consideration, ie it will reduce the revenue that is recognised from the operator's services when that revenue is recognised. The rationale for this approach is based on the assumption that, in the financial asset model, the grantor is no different from a customer in a revenue arrangement. In other words, an operator would treat a variable concession fee payable to the grantor in the same way as an entity would treat a variable payment to a customer.

    (b) when the operator has only a right to charge users of the public service, the Interpretations Committee noted that the concession fee should be treated as follows:

        (i) when only operation services are provided, the payment will represent the acquisition of an intangible asset, ie a right to charge the public users of the service; and

        (ii) when construction and operation services are provided, the payment will represent an incremental payment for the intangible asset.

    The rationale for this approach is based on the assumption that, in the intangible asset model, the revenue arrangement is between the operator and the public, and the payment arrangement represents a barter transaction of non-cash consideration in which a service (the operator's construction and/or operation services) is exchanged for an intangible asset (the grantor's concession right). However, as part of the barter transaction, the operator may also be required to pay the grantor a concession payment in order to make up the difference in the relative fair values of the items that are exchanged. For example, if the construction or upgrade services have a fair value of CU1,500 but the fair value of the right to charge the public is worth CU1,700, then the grantor would require something more than the construction services in exchange for the right to charge the public, ie a concession payment of CU200.[1]

The Interpretations Committee noted that when the payment that the operator is required to make to the grantor is variable, the transaction is analogous to a transaction in which a variable payment is made by the purchaser to acquire an intangible asset from a seller (which has been discussed in Agenda Paper 06A).

11. In developing this framework, the Interpretations Committee considered situations in which the payments to be made are variable in nature.

(a) When the financial asset model is used, the Interpretations Committee agreed that the principles in IAS 18 *Revenue* should be drawn on for accounting for such payments (ie consistent with the approach in paragraph 6(d)(i)).

(b) When the intangible asset model is applicable, the Interpretations Committee noted that the issue of variable concession fees is linked to the broader issue of variable payments for the separate purchase of PPE and intangible assets outside of a business combination.

Agenda Paper 06A discusses variable payments for asset purchases outside of a business combination. In previous discussions on that issue, the Interpretations Committee could not reach a consensus on whether or not payments that are dependent on the purchaser’s future activity should be excluded from the initial measurement of the liability until that activity is performed. For subsequent accounting, the Interpretations Committee had tentatively decided that:

[1] In this Agenda Paper, monetary amounts are denominated in ‘currency units’ (CU).

(i) the remeasurement of the liability, in accordance with paragraph AG7 of IAS 39, corresponds entirely to an interest expense (calculated using the revised effective interest rate) that should be recognised in profit or loss. Paragraph AG7 applies to the accounting for floating rate instruments. It would therefore apply, for example, to the accounting for liabilities to make variable payments that are dependent on an interest rate (such as LIBOR).

(ii) for other liabilities (ie those that are not floating rate liabilities):

1. adjustments of the financial liability resulting from the amortisation of the financial liability (using the original effective interest rate) correspond to an interest expense that is recognised in profit or loss;
2. adjustments of the financial liability that result from the revision of the estimates of payments that were included in the initial measurement of the financial liability should be recognised as an adjustment to the cost of the corresponding asset; and
3. adjustments of the financial liability that result from the recognition of variable payments that were excluded from the initial measurement of the financial liability should be recognised as corresponding adjustments to the cost of the asset to the extent that those payments are associated with future economic benefits to be derived from the asset.

If the principles developed for the initial recognition and measurement of variable payments in lease agreements (as explained in Agenda Paper 06A) were to be applied to variable payments for asset purchases:

(i) variable payments that are based on an index or a rate would be included in the initial measurement of the liability. These variable payments would be measured initially using the index or rate at the date of measurement; and

(ii) all other variable payments would be excluded from the initial measurement of the liability.

If the principles developed in the Leases project were to be applied to the *subsequent accounting* for variable payments for asset purchases, we think:

(i) for variable payments that are based on an index or a rate, the amount of the remeasurement of the lease liability resulting from a change in the index or rate should be recognised with a corresponding adjustment to the asset; and

(ii) for variable payments that have not been included in the initial measurement of the liability, the amounts should be recognised in profit or loss in the period in which the obligation for those payments is incurred (unless the costs are included in the carrying amount of another asset in accordance with other applicable standards).

If the principles developed in the Leases project are applied to the accounting for variable payments for an asset purchase, and if the intangible asset model is applied in a service concession arrangement that has a concession payment that is variable based on an index or a rate, the concession payment would be included in the initial measurement of the liability using the index or rate at the date of entering into the service concession agreement with a corresponding adjustment against the cost of the intangible asset. Subsequent adjustments to the payments would be recorded against the cost of the asset.

Concession payments based on other variables (such as revenues) would be excluded from the initial measurement of the liability. Payments made subsequently would be recorded against profit or loss.

(c) When a hybrid model is applicable, the Interpretations Committee noted that a judgement will have to be made as to whether the concession payment represents an adjustment to the overall revenue consideration or consideration for the concession right intangible asset (ie consistently with the approach noted in paragraph 6(d)(iii)).

12. The Interpretations Committee has also developed draft amendments to IFRIC 12. However, the Interpretations Committee preferred to expose any proposals for amending IFRIC 12 at the same time as any amendments to the measurement of cost

and variable consideration in IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*. These proposed amendments have been presented in Appendix A of this paper. At its meeting in March 2013, the Interpretations Committee had also tentatively agreed that it would be useful to include a flowchart as part of the proposed amendments.

13. Simple examples illustrating the impact of the above tentative decisions have been included in Agenda Paper 06C.

Update for potential implications of IFRS 15

14. The Interpretations Committee had noted that if the concession payment does not give the operator a right to a distinct good or service or a right of use that meets the definition of a lease, and if the service concession results in the operator having a contractual right to receive cash from only the grantor (ie the financial asset model in IFRIC 12 applies), then the concession payment is an adjustment to the overall revenue consideration.

15. In reaching this tentative decision, the Interpretations Committee had considered the guidance in IAS 18. The analysis noted that IAS 18 does not provide explicit guidance relating to payments made to customers apart from volume rebates and trade discounts discussed in paragraph 10 of IAS 18:

> The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

16. The Interpretations Committee noted that although IAS 18 does not explicitly address all types of payments to customers, the principle in IAS 18 that is applied to volume rebates and trade discounts should be applied to other payments from an entity to a customer.

17. The IASB has recently issued IFRS 15 *Revenue from Contracts with Customers*, which replaces the guidance in IAS 18. IFRS 15 provides guidance on consideration

payable to a customer. The guidance specifies that consideration payable to a customer shall be accounted for as a reduction of the transaction price and, therefore, of revenue unless the payment is in exchange of a distinct good or service.

18. It also specifies that if the consideration payable includes an amount that is variable, an entity should estimate the transaction price in accordance with the guidance on variable consideration included in IFRS 15. Excerpts of the guidance on consideration payable to customers and variable consideration from IFRS 15 have been reproduced in Appendix B of this paper.

19. We think that the guidance in IFRS 15 is consistent with the previous tentative conclusions of the Interpretations Committee and do not think that any updates or further analysis of those conclusions is required as a result of the introduction of IFRS 15.

Summary of outreach activities

20. In order to update our outreach and determine whether or not payments made by an operator to a grantor in service concession arrangements are still widespread and are creating significant diversity in practice, we sent requests to the International Forum of Accounting Standard-Setters, securities regulators, global accounting firms and companies in the infrastructure industry. In particular, we asked the following questions:

    (a) How common are service concession arrangements that involve payments made by the operator to the grantor in your jurisdiction?

    (b) In your jurisdiction, what is the predominant approach to accounting for such payments? What is the basis for the approach taken?

21. The views received represent informal opinions and do not reflect the formal views of those organisations.

Responses from national standard-setters

22. We received eight responses from national standard-setters. The geographical breakdown for the responses received from the national standard-setters is as follows:

Geographical region	**Number of respondents**
Asia	2
Europe	1
Americas	1
Oceania	2
Africa	2
Total respondents	**8**

23. Four respondents indicated that they had limited to no experience with these types of payment arrangements within their respective jurisdictions. One respondent indicated that while the arrangement is not common, the government is intending to promote the use of service concession arrangements and the respondent expects payments from the operator in exchange for acquiring the right of operation to be a common feature within those arrangements.

24. Three respondents indicated that such arrangements were common within their respective jurisdictions. These respondents could not identify a predominant approach and noted that there was diversity in practice in accounting for such payments. One respondent noted that such arrangements are common in the public transport market in its jurisdiction.

Responses from securities regulators

25. We received responses from two organisations representing groups of regulators. One respondent noted that their members had no experience with these types of arrangements.

26. The second respondent noted that these types of arrangements were commonly encountered by one of their members within that particular jurisdiction. The predominant approach was to recognise the obligation to make these payments at the start of the concession.

Responses from companies in the construction and infrastructure industries

27. We received responses from three companies in the construction and infrastructure industries.

28. One respondent noted that such arrangements are common in their jurisdiction. Payments to be made by the operator to the grantor may be fixed (adjusted annually by inflation) or variable (based on revenues). The respondent has confirmed that there is diversity in practice due to the lack of guidance in IFRIC 12 on how to account for such payments.

29. One respondent noted that, based on their experience, *variable payments* made by an operator to a grantor are common in cases in which the service concession arrangement is accounted for under the *intangible asset model* in IFRIC 12. In their experiences, *fixed payment arrangements* under the intangible asset model are not common. Such payments are also not common in situations in which the service concession is accounted for under the *financial asset model* in IFRIC 12. The variable payment arrangements are usually in the nature of revenue-sharing arrangements in which the grantor has the right to receive a part of the revenue above a specific threshold. The respondent noted that these payments are generally not considered a part of the consideration for the acquisition of the concession right and are treated as executory (similar to the proposals developed in the Leases project for variable consideration).

30. One respondent noted that their experience was limited to one jurisdiction in which certain operating profit surpluses are required to be passed back to the grantor. The operator typically does not recognise any upfront liability and accounts for the payments to the grantor at each reporting period as part of the results for that period.

Responses from accounting networks

31. We received responses from the global IFRS desks of five accounting networks. One respondent noted that they did not have significant experience with these types of arrangements.

32. All of the other respondents noted that these types of arrangements are common in several jurisdictions. The payment arrangements can differ widely and may be either

fixed or variable, with the variation linked to different factors such as sales, passenger numbers, share of revenues, etc. It was noted that fixed payment arrangements are typically indexed to inflation or subject to some form of reset mechanism on an annual or periodic basis.

33. For payment arrangements that are fixed in nature, two respondents stated that they have observed diversity in practice in accounting for such payments. Such payments are either:

    (a) recognised at the start of the concession either as a reduction to the financial asset recognised in relation to construction or upgrade services provided (in situations in which the financial asset model is used) or as part of the intangible asset recognised with an obligation to make the related payments (in situations in which the intangible asset model is used); or

    (b) treated as executory in nature, to be recognised over the term of the concession arrangement.

34. One firm noted that a key issue that needs to be addressed before being able to assess the accounting for such payments is to determine who the customer is. As explained previously, this was one of the considerations that had been taken into account in the past by the Interpretations Committee as it developed its tentative conclusions.

35. One firm noted that when payment arrangements are fixed in nature, they have predominantly observed the treatment specified in paragraph 33(a). However, all three firms commented that further complexities and diversity arises in instances in which the payments are subject to subsequent inflation adjustments or other reset mechanisms.

36. Four firms noted that the predominant, or more prevalent, approach for accounting for payments that are variable in nature is to treat them as executory.

Feedback from CMAC/GPF members

37. As part of our outreach activities, we also discussed this issue at the joint meeting of the Global Preparer’s Forum and the Capital Markets Advisory Committee held in June 2015.

38. One preparer noted that in his experience, these types of payment arrangements are rare and have characteristics similar to annual licence fees that escalate over time.

39. It was noted that there is often a mismatch between the rate that an operator is allowed to charge to customers and escalating fees to the grantor, which creates volatility in profit or loss and may not reflect the economics of the arrangement. One member noted that having a mismatch should not be a reason for a different accounting treatment, because mismatches could arise in other industries in which operating costs may increase based on particular agreements, while amounts charged to customers may not increase at the same rate. Another member noted that the arrangement seemed to have certain features of rate-regulated enterprises.

Next steps

40. Our outreach has confirmed that payments from an operator to a grantor under a service concession arrangement are common in several jurisdictions. Significant diversity continues to exist in the accounting for such payment arrangements. For a discussion on the appropriate way forward for this project, please refer to Agenda Paper 06.

Appendix A
Amendments to IFRIC 12

A1. This Appendix presents the proposed amendments to IFRIC 12 *Service Concession Arrangements* as discussed by the Interpretations Committee during its March and May 2012 meetings. We have updated the cross-references in the amendments previously agreed to by the Interpretations Committee for Standards recently issued, such as IFRS 9, and have made minor editorial corrections.

Paragraphs 7, 10 and 27 are amended and paragraphs 27A–27B and their related heading are added. Deleted text is struck through and new text is underlined.

Scope

…

7 This Interpretation applies to both:

(a) infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement; and

(b) existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement <u>(in exchange for payments or not)</u>.

…

Issues

10 This Interpretation sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements. Requirements for disclosing information about service concession arrangements are in SIC-29. The issues addressed in this Interpretation are:

(a) treatment of the operator's rights over the infrastructure;

(b) …

(f) subsequent accounting treatment of a financial asset and an intangible asset; ~~and~~

(g) items provided to the operator by the grantor<u>; and</u>

<u>(h)</u> <u>payments made by the operator to the grantor.</u>

…

Items provided by the operator to the grantor

…

27 In accordance with paragraph 11, infrastructure items to which the operator is given access by the grantor for the purposes of the service arrangement are not recognised as property, plant and equipment of the operator. <u>If the operator is given access to infrastructure items in exchange for payments, the operator shall account for those payments in accordance with paragraph 27A of this Interpretation.</u> The grantor may also provide other items to the operator that the operator can keep or deal with as it wishes. If such assets form part of the

consideration payable by the grantor for the services, they are not government grants as defined in IAS 20. They are recognised as assets of the operator, measured at fair value on initial recognition. The operator shall recognise a liability in respect of unfulfilled obligations it has assumed in exchange for the assets.

Payments made by the operator to the grantor

27A As part of a service concession arrangement, the operator may be required to make payments to the grantor. If the payments give the operator a right to goods or services that are distinct from the service concession arrangement, the operator shall account for those distinct goods or services (and the corresponding liability) in accordance with the applicable Standards. For example, lease payments made by the operator to the grantor that give the operator the right to control the use of assets are accounted for in accordance with IAS 17.

27B If the payments do not give the operator a right to distinct goods or services, the payments made by the operator to the grantor are part of the service concession arrangement. In that case, the operator shall account for a financial liability to make concession payments in accordance with IFRS 9. The corresponding accounting entry is as follows:

(a) if the operator recognises a financial asset as required in paragraph 16, then the payments represent a reduction of the consideration received by the operator for the operation and construction services (if any) it performs and are therefore accounted for as a reduction of the operator’s revenue (see paragraph 13);

(b) if the operator recognises an intangible asset as required in paragraph 17, then the payments represent additional consideration paid by the operator for that intangible asset and are therefore accounted for as part of the cost of that intangible asset to the extent that IAS 38 requires so; and

(c) if the operator recognises both a financial asset and an intangible asset as required in paragraph 18, then the operator shall:

(i) assess whether the payments represent a reduction of the consideration received by the operator for the services it performs and/or an additional consideration paid by the operator for the intangible asset. This assessment is made by comparing the amount of the right to receive cash from the grantor with the fair value of the operation and construction services (if any) performed by the operator.

(ii) account for those payments in accordance with subparagraphs (a) and/or (b).

Appendix B
Excerpts of guidance from IFRS 15

Variable consideration

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

51 An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The promised consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was sold with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.

52 The variability relating to the consideration promised by a customer may be explicitly stated in the contract. In addition to the terms of the contract, the promised consideration is variable if either of the following circumstances exists:

(a) the customer has a valid expectation arising from an entity's customary business practices, published policies or specific statements that the entity will accept an amount of consideration that is less than the price stated in the contract. That is, it is expected that the entity will offer a price concession. Depending on the jurisdiction, industry or customer this offer may be referred to as a discount, rebate, refund or credit.

(b) other facts and circumstances indicate that the entity's intention, when entering into the contract with the customer, is to offer a price concession to the customer.

53 An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

(a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (ie the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

54 An entity shall apply one method consistently throughout the contract when estimating the effect of an uncertainty on an amount of variable consideration to which the entity will be entitled. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity's

management uses during the bid-and-proposal process and in establishing prices for promised goods or services.

Refund liabilities

55 An entity shall recognise a refund liability if the entity receives consideration from a customer and expects to refund some or all of that consideration to the customer. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (ie amounts not included in the transaction price). The refund liability (and corresponding change in the transaction price and, therefore, the *contract liability*) shall be updated at the end of each reporting period for changes in circumstances. To account for a refund liability relating to a sale with a right of return, an entity shall apply the guidance in paragraphs B20–B27.

Constraining estimates of variable consideration

56 An entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 53 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

57 In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

(a) the amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgement or actions of third parties, weather conditions and a high risk of obsolescence of the promised good or service.

(b) the uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

(c) the entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value.

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

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

58 An entity shall apply paragraph B63 to account for consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a licence of intellectual property.

Reassessment of variable consideration

59 At the end of each reporting period, an entity shall update the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The entity shall account for changes in the transaction price in accordance with paragraphs 87–90.

…

Consideration payable to a customer

70 Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer). Consideration payable to a customer also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer). An entity 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 26–30) that the customer transfers to the entity. If the consideration payable to a customer 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 50–58.

71 If consideration payable to a customer is a payment for a distinct good or service from the customer, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, it shall account for all of the consideration payable to the customer as a reduction of the transaction price.

72 Accordingly, if consideration payable to a customer is accounted for as a reduction of the transaction price, an entity shall recognise the reduction of revenue when (or as) the later of either of the following events occurs:

(a) the entity recognises revenue for the transfer of the related goods or services to the customer; and

(b) the entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary business practices.