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Accounting Considerations Related to Adtech Entities' Revenue Arrangements

The Bottom Line

- The advertising technology (“adtech”) industry has experienced significant growth in data-driven solutions, advancements in programmatic advertising, and integration of artificial intelligence (AI) and machine learning to improve targeting. Further, independent tracking of real-time return on ad spending (ROAS),¹ protection against wasted ad spending related to fraud (e.g., bots), and management of brand reputation across multiple digital channels and fragmented audiences have contributed to the growth of sophisticated analytics and integration across numerous adtech platforms.
- Programmatic advertising — the automated buying and selling of ad space² in real time — uses algorithms that allow buyers to bid on ad space on the basis of metadata about the ad space and the user. Programmatic advertising transactions often occur via real-time bidding (RTB)³ auctions in which ad space is bought and sold within milliseconds. A cornerstone of the adtech industry, programmatic advertising plays a central role across multiple digital channels and formats, including Web sites, mobile apps, connected television (CTV),⁴ social media, digital out-of-home media, podcasts, video, audio, and gaming.

¹ ROAS is a key performance indicator in the adtech industry. It refers to the amount of revenue that is earned for every dollar spent.

² The Interactive Advertising Bureau (IAB) [glossary](#) defines an ad space as “the location on a page of a site in which an advertisement can be placed. Each space on a site is uniquely identified. Multiple ad spaces can exist on a single page.”

³ The IAB glossary defines RTB, in part, as a “way of transacting media that allows an individual ad impression to be put up for bid in real time. This is done through a programmatic on-the-spot auction, which is similar to how financial markets operate.”

⁴ CTV is a television that (1) is connected to the Internet via over-the-top devices (e.g., streaming box, gaming console) or has built-in Internet capabilities (e.g., a smart TV) and (2) can access a variety of long-form and short-form Web-based content.

- Programmatic advertising involves multiple stakeholders, including (1) advertisers; (2) publishers; and (3) operators of sell-side platforms, demand-side platforms, ad exchanges, ad networks, and data aggregators, respectively.
- In accordance with ASC 606,⁵ entities in the programmatic advertising ecosystem must carefully evaluate their contracts with customers to determine whether revenue from those contracts should be recognized on a gross basis or on a net basis. Such a determination depends on whether an entity is acting as a principal or as an agent. The first step in the principal-versus-agent analysis is to identify the specified goods or services promised to a customer, such as ad space (or a right to the ad space), platform access, or facilitation. Further, the determination of whether an entity obtains control of the ad space (or a right to the ad space) during the milliseconds before the ad space (or a right to the ad space) is transferred to a customer requires judgment based on the entity's facts and circumstances.

Beyond the Bottom Line

This *Technology Spotlight* highlights considerations for entities in the adtech industry related to their accounting for revenue from programmatic advertising arrangements. It explains how programmatic advertising transactions are executed, describes the roles and responsibilities of key players in the programmatic advertising ecosystem, and discusses control indicators for determining whether an adtech entity is acting as a principal or as an agent in a programmatic advertising arrangement (and, therefore, whether the entity should recognize revenue on a gross basis or on a net basis under ASC 606).

Background

The adtech industry has been marked by a series of technological advancements that have been built upon one another to form the current complex environment. The initial phase, which began in the mid-1990s, was characterized by the introduction of technologies such as basic display ads, rudimentary tracking mechanisms, and the first ad servers designed to automate the delivery of these ads. The primary business models involved direct sales between publishers and advertisers, a process that was both inefficient and difficult to scale.

The early 2000s brought increased sophistication to audience targeting and delivery. Search engine advertising emerged as a powerful model, linking ads to user intent, while contextual targeting⁶ aligned ads with relevant Web site content. This period saw the rise of ad exchanges and the introduction of RTB auctions, which began the shift toward programmatic, auction-based systems for buying and selling ad space. These developments paved the way for the complex platforms that define much of the current landscape.

Today, the adtech industry is characterized by a high degree of automation, data-driven behavioral targeting, and a growing emphasis on user privacy. Programmatic advertising has become a key transaction method, facilitated by demand-side platforms, sell-side platforms, and other adtech platforms that are interconnected across a vast ecosystem of digital channels. Further, new digital channels and formats, including mobile apps, CTV, social media, digital out-of-home media, podcasts, video, audio, and gaming, have made cross-channel campaign management necessary for advertisers to track their ROAS in real-time. In addition, AI and machine learning are being leveraged throughout the programmatic advertising ecosystem to process vast amounts of data and make real-time decisions about how ads are created, targeted, and optimized.

⁵ For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#)."

⁶ Contextual targeting refers to the targeting of creative ads to consumers based on what those consumers are currently viewing.

Lastly, the adtech industry has been affected by data privacy challenges and the decline of third-party cookies, which have given rise to retail media networks (RMNs). These networks enable brands to bring together retailers and advertisers in new ways to sell digital advertising to advertisers. See Deloitte's October 2022 [Retail & Distribution Spotlight](#) for accounting considerations related to RMNs.

Programmatic Advertising

As noted above, programmatic advertising has become a key transaction method in the adtech industry. The next sections discuss programmatic advertising in greater detail.

How Programmatic Advertising Transactions Are Executed

Programmatic advertising transactions are executed in various ways, including the following:

- *Open auctions* — Open auctions are where most programmatic advertising transactions occur today. In an open auction, multiple adtech platforms leverage algorithms and data to bid on ad space across multiple digital channels via an RTB auction, with the highest bidder winning the auction. These transactions occur within milliseconds and allow for the instantaneous buying and selling of ad space. Open auctions include hundreds of potential buyers and sellers.
- *Private auctions* — Private auctions are exclusive “invitation-only” auctions in which publishers offer their premium ad space to a select group of buyers. When the premium ad space becomes available, a select group of buyers can bid on it via an RTB auction. If the ad space does not clear the private auction, it is often offered next in an open auction.
- *Preferred deals* — Preferred deals are “first-look” opportunities that allow a buyer to purchase ad space from a publisher at a fixed price before the ad space is made available in an auction. The publisher and buyer directly negotiate the preferred deals, including the price, and use an adtech platform to facilitate the transaction. However, the ad space is not reserved for a specific advertiser, and the buyer is not committed to purchasing it. If the buyer does not purchase the ad space, the publisher can sell the ad space in a private auction or an open auction.
- *Programmatic guaranteed deals* — Programmatic guaranteed deals require a publisher to commit to delivering a specific amount of ad space to a specific buyer at a fixed price. The buyer commits to purchasing the ad space in advance.

In programmatic advertising, ad space may be auctioned off under a “waterfall” approach or a “header bidding” approach. Often, the adtech platform with which a publisher contracts to host the publisher’s auctions will allow the publisher to determine which approach to use.

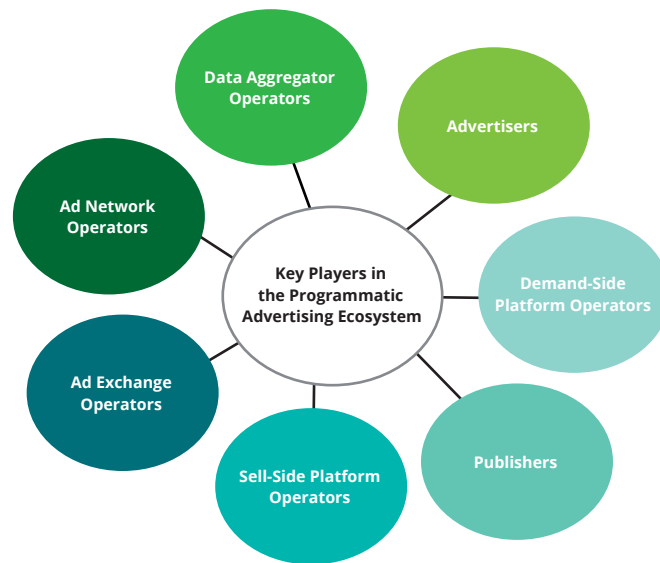
Under the waterfall approach, ad space is offered to demand sources sequentially. If the first buyer does not want the ad space, it “falls down” to the next buyer, and so on.

Under the header bidding approach, a header bidding wrapper (e.g., a JavaScript code on the adtech platform’s Web site) sends a request for bids on ad space to multiple demand sources simultaneously. Upon receiving the bid request, each demand source conducts an auction and returns its highest bid to the header bidding wrapper, which then compares all received bids and typically forwards the highest one to the publisher for final decision-making. To select the winning bid, the publisher’s sell-side platform evaluates the highest header bid alongside other demand sources (such as direct deals and non-header-bidding programmatic bids) on the basis of parameters established by the publisher. If the highest header bid is selected, the creative ad is displayed in the ad space. This entire sequence transpires within a matter of milliseconds.

Although the term “header bidding” was coined after the use of code in a Web site’s header, the principles underlying header bidding apply to other digital channels besides Web sites, potential differences in technical implementation notwithstanding. For example, “in-app bidding” is the mobile app equivalent of header bidding. Instead of using code in a Web site’s header, in-app bidding uses software to allow multiple buyers to bid on ad space in a publisher’s mobile app. It follows the same logic: multiple bidders get a chance to bid simultaneously.

Key Players in Programmatic Advertising

The graphic below depicts many of the key players in the programmatic advertising ecosystem.



The roles and responsibilities of the key players depicted above may be described as follows:

- *Advertisers* — Advertisers are businesses or brands that invest in creative ads to reach their target audiences. They may be represented by advertising agencies or in-house marketing teams that plan and execute ad campaigns. In the adtech industry, advertisers (and their agencies) are on the demand side, aiming to deliver the right creative ad to the right target audience at the right time. Advertisers may compensate a publisher for the right to display their creative ads on the publisher’s digital platform in various ways, including the following:
 - *Cost per click* — An advertiser pays an agreed-upon amount each time a user clicks on the advertiser’s creative ad.
 - *Cost per mille* — An advertiser pays a specified price every thousand times its creative ad is displayed and viewed.
 - *Cost per acquisition* — An advertiser pays when a user completes a specific action, such as purchasing or signing up, after interacting with the advertiser’s creative ad.
 - *Cost per view* — An advertiser pays each time a user views the advertiser’s creative ad in the form of a video.
 - *Cost per installation* — An advertiser pays each time its creative ad leads to an installation of its app or digital asset. For example, a gaming advertiser prices its bids on the basis of installation rather than views because it expects the publisher’s digital platform to deliver an installation. That is, the bid of a gaming advertiser represents the price the advertiser is willing to pay if an installation is delivered.

Advertisers generally contract with operators of various adtech platforms, including demand-side platforms, ad networks, and ad exchanges, to buy available ad space. Depending on the business model of these adtech platforms, the advertisers may guide the adtech platforms' algorithms by setting input parameters (e.g., who sees the creative ad, how much to bid, when to bid). Often, they receive reports and data analytics that monitor campaign performance in near real-time, allowing for immediate adjustments and optimization.

Advertisers also enter into arrangements with third-party operators of attribution platforms that specialize in tracking, measuring, and analyzing the performance of the advertisers' ad campaigns. The attribution platforms are integrated with other adtech platforms to verify and measure campaign performance and provide key performance indicators such as cost per acquisition and ROAS. Advertisers may use these platforms to independently track performance and corroborate the amounts due on the basis of the payment terms (e.g., clicks, views, installations).

- *Demand-side platform operators* — Demand-side platforms are technology platforms that enable advertisers (or other parties acting on behalf of the advertisers) to purchase ad space across multiple publishers and digital channels. Demand-side platforms use sophisticated algorithms to determine the right target audience, bid in real time, and optimize the advertisers' ad campaigns. Rather than contracting with dozens of publishers individually or using separate ad networks, advertisers can use a demand-side platform to bid on available ad space from multiple sources (e.g., ad exchanges, publishers, sell-side platforms). Demand-side platforms connect to adtech platforms via an application programming interface (API)⁷ that allows the advertisers to bid on any available ad space programmatically once it becomes available.
- *Publishers* — Publishers own digital platforms on which they offer ad space. Representing the supply side of the programmatic advertising ecosystem, publishers operate across various digital formats and platforms, including Web sites, mobile devices, CTV, apps, audio, and podcasts. To earn revenue, a publisher will sell ad spaces (or ad impressions) that temporarily allow advertisers to display their creative ads on the publisher's digital platform. The publisher (or a platform operator acting on the publisher's behalf) will send a buyer a bid request containing metadata that describe an available ad space and provide information about the consumer so that the buyer can make a more informed decision about how much to bid on the ad space.

Publishers generally contract with multiple operators of adtech platforms, including operators of sell-side platforms, ad exchanges, and ad networks, to sell available ad space. In a manner similar to how advertisers do so, publishers may guide the algorithms of such platforms by setting input parameters (e.g., who sees the creative ad, where the ad is displayed, the auction type, the minimum bid price or floor price for the ad space, whether certain creative ads are excluded from appearing on the platforms).

- *Sell-side platform operators* — Sell-side platforms are technology platforms that enable publishers (or other parties acting on behalf of the publishers) to sell available ad space across multiple demand-side platforms, ad exchanges, and ad networks. In a manner similar to how demand-side platforms do so, sell-side platforms connect to adtech platforms via an API that allows them to send requests for bids on any ad space programmatically once the ad space becomes available.

⁷ APIs enable different software systems to communicate and exchange data. In the adtech industry, APIs are used to connect platforms, automate processes, and facilitate the flow of information between the different adtech platforms.

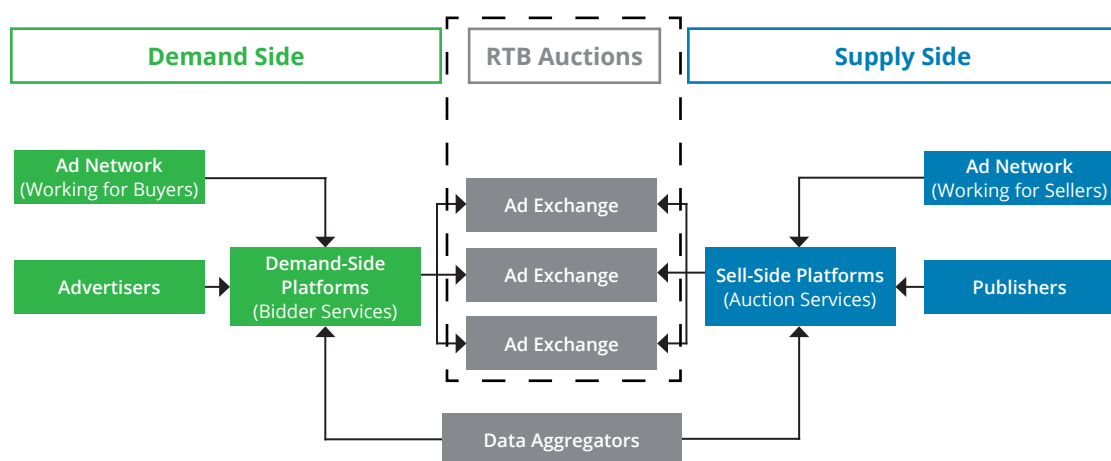
- *Ad exchange operators* — Ad exchanges are digital marketplaces that facilitate programmatic advertising. They can be thought of as a “central trading floor” for programmatic advertising, on which bids from buyers are paired with bid requests from sellers.

Ad exchanges can support different auction types and facilitate private deals, such as auctions with restricted buyers. They generally earn revenue by facilitating the exchange of ad space between buyers and sellers, and they use advanced algorithms to match buyers and sellers.

In practice, the term “ad exchange” is sometimes used interchangeably with “sell-side platform” or with the exchange functionality of a sell-side platform. Initially, however, ad exchanges were independent platforms that sat between demand-side platforms and sell-side platforms.

- *Ad network operators* — Traditionally, ad network operators aggregated ad inventory from multiple publishers and sold it to buyers, often as premium ad inventory. Today, ad networks function in a manner similar to how ad exchanges operate, facilitating the programmatic buying and selling of ad space.
- *Data aggregator operators* — Data aggregators are platforms that collect, organize, and manage information to create audience profiles. The data are used for ad targeting, enabling advertisers to reach specific demographics, interests, and behaviors. Platforms such as data management platforms, customer data platforms, and data curators manage first-party, second-party, and third-party data and integrate this information into the broad programmatic advertising ecosystem to inform targeting strategies.

The graphic below illustrates a simplified programmatic advertising ecosystem that involves advertisers, demand-side platforms, publishers, sell-side platforms, ad exchanges, ad networks, and data aggregators.



Notwithstanding the platforms highlighted above, it is important to note that the adtech industry encompasses a variety of other platforms, including those of entities that independently measure the effectiveness of advertisers’ campaigns and provide prebid and postbid verification solutions to both advertisers and publishers. In response to the constantly evolving digital landscape, the adtech industry is also continually seeing the emergence of new platforms to support innovative digital channels and technologies. Further, a significant trend within the programmatic advertising ecosystem is vertical integration, by which entities manage multiple stages of the advertising supply chain from ad creation and media buying to ad serving and data analytics. This trend is driven by the desire for greater control over the entire advertising process and the ability to leverage data across different stages, reflecting the ongoing evolution of the adtech landscape.

Illustrative Example

The example below illustrates a simplified programmatic advertising transaction.

Example 1

An automobile manufacturer (the advertiser) wishes to launch a digital advertising campaign to promote a new high-performance vehicle. The advertiser uses a demand-side platform to define its target audience (e.g., consumers interested in high-performance vehicles, residing in specific geographic locations). The demand-side platform programmatically connects to various ad space sources, including ad exchanges and sell-side platforms, on which publishers offer their ad space for sale programmatically.

When a consumer visits a publisher's digital platform (e.g., a Web site), the publisher decides what to do next on the basis of what it knows about the user and the available ad space. For example, the publisher may choose to serve the ad space to an open auction, private auction, preferred deal, or programmatic guaranteed deal (or some combination thereof). Information about consumers that informs the publisher may be obtained from multiple sources, including code embedded in the publisher's Web site and third-party sources such as data aggregators.

On the basis of information about the consumer and the available ad space, the publisher's adtech platform serves the ad space to an open auction and sends a bid request to multiple ad exchanges. The bid request includes metadata about the ad space and the consumer accessing the publisher's digital platform, which allow the buyers to make informed decisions on how much to bid on the ad space.

The automobile manufacturer's demand-side platform submits a bid for ad space in which the automobile manufacturer's creative ad can be displayed to the target audience. The demand-side platform uses algorithms and machine learning to evaluate the amount to bid on the available ad space on the basis of metadata that it obtains from the ad exchange and third-party data aggregators, coupled with the automobile manufacturer's ad campaign objectives and input parameters.

The automobile manufacturer's demand-side platform submits the highest bid and wins the open auction. The demand-side platform provides instructions to the ad exchange on retrieving the automobile manufacturer's creative ad. This information is passed on to the publisher, which retrieves the creative ad from the advertiser. The automobile manufacturer's ad for its high-performance vehicle is displayed on the publisher's digital platform.

This entire process, from the bid request to the auction process to the display of the creative ad, occurs within milliseconds.

How the Complex Programmatic Advertising Ecosystem Affects Revenue Recognition

In accordance with ASC 606, entities that provide goods and services to customers in the programmatic advertising ecosystem must evaluate their contracts to determine when, and how much, revenue should be recognized. Typically, an adtech transaction begins with the publisher and concludes with the advertiser, ultimately resulting in the transfer of ad space from the publisher to the advertiser. However, since multiple intermediaries are involved in the facilitation of adtech transactions, it is essential to assess each party's role as either a principal or an agent and to determine whether each party obtains control of the ad space before it is transferred to the advertiser. The rapid, often millisecond-level execution of these transactions further complicates this evaluation.

For the operator of an adtech platform that facilitates the programmatic buying and selling of ad space, a key consideration is whether the entity acts as a principal or as an agent. That is, the entity must determine whether (1) the nature of its performance obligation is a promise to buy or sell ad space as either the buyer's agent or the seller's agent or (2) it is acting as the principal for the obligation to deliver the ad space to the buyer (or the buyer's agent). As discussed in ASC 606-10-55-36A, for an entity to determine the nature of its promise, it should identify the specific goods or services that are being provided to the customer and then assess whether it controls each specified good or service before that good or service is

transferred to the customer. Regardless of an entity's position in the programmatic advertising ecosystem, applying the guidance in ASC 606-10-55-36A is essential for accurately identifying the entity's customer, which may directly affect the amount of revenue recognized.

Because the principal-versus-agent analysis is performed for each specified distinct good or service (or distinct bundle of goods or services) that will be transferred to the customer, the same guidance that an entity applies to identify performance obligations (ASC 606-10-25-19 through 25-22) will be applied to determine the unit of account (i.e., the specified goods or services) used in the evaluation of whether an entity is acting as a principal or as an agent. In addition, because an adtech entity may bundle the ad space (or a right to the ad space) with other distinct performance obligations, such as access to its adtech platform or campaign management services, such an entity may be a principal for certain aspects of a contract with a customer and an agent for others.

Evaluating Control

When the operator of an adtech platform that facilitates programmatic advertising performs the principal-versus-agent analysis, the specified good or service is typically the publisher's ad space. Accordingly, the entity should consider whether it obtains control of the publisher's ad space (or a right to the publisher's ad space) before the ad space is transferred to the customer.

As stated in ASC 606-10-55-37, an entity is a principal in providing a specified good or service "if it controls the specified good or service before that good or service is transferred to a customer." The control principle used in the determination of whether an entity is acting as a principal or as an agent is the same control principle used in the evaluation of when a good or service (i.e., an asset) is transferred to the customer.

ASC 606-10-25-25 states, in part, "Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset."

However, it may not be clear whether an entity does in fact obtain control of the goods or services provided by a third party before they are transferred to a customer. In these circumstances, the entity will need to consider the indicators in ASC 606-10-55-39 when evaluating whether it is acting as a principal. Those indicators are summarized below.

There are three key indicators to help the entity make this assessment:

- "The entity is primarily responsible for fulfilling the promise to provide the specified good or service."
- "The entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return)."
- "The entity has discretion in establishing the price for the specified good or service. . . . However, an agent can have discretion in establishing prices in some cases."

As noted in paragraph BC16 of [ASU 2016-08](#),⁸ "the indicators in paragraph 606-10-55-39 were included to support an entity's assessment of whether it controls a specified good or service before it is transferred to the customer. The indicators (a) do not override the assessment of control, (b) should not be viewed in isolation, (c) do not constitute a separate or additional evaluation, and (d) should not be considered a checklist of criteria to be met in all scenarios."

⁸ FASB Accounting Standards Update (ASU) No. 2016-08, *Revenue From Contracts With Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*.

Further, paragraph BC18(e) of ASU 2016-08 states, in part, that “the indicators are not an exhaustive list and merely support the assessment of control. They do not replace or override that assessment.”

It is common in a principal-versus-agent analysis to place greater weight on certain indicators of control than on others. While there is no default indicator that is more important than others, certain indicators may be more relevant in some circumstances than others. How each indicator is factored into the analysis may also be influenced by how clearly the indicator is met.

The operator of an adtech platform that facilitates programmatic advertising may consider the following when evaluating whether it controls the publisher’s ad space (or a right to the publisher’s ad space) before the ad space is transferred to the customer:⁹

- Does the adtech platform operator obtain legal title to the ad space before transferring the ad space to the customer? While programmatic advertising occurs within milliseconds, the adtech platform operator may momentarily obtain legal title to the ad space before the ad space is transferred from the publisher to the buyer. The entity should consider whether obtaining legal title allows it to control the ad space through its ability to (1) redirect the ad space to a different buyer or (2) use the ad space itself. In performing this evaluation, the entity should consider technological and practical limitations to rerouting or reassigning the ad space to a different buyer, along with the terms and conditions of its contractual agreements. Although an adtech platform operator may momentarily obtain legal title to ad space during an auction or immediately before a creative ad is displayed, ASC 606-10-55-37 states, in part, that “an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a customer.” Thus, an adtech platform operator’s legal ownership or other legal rights to ad space are not necessarily conclusive in the determination of whether the entity controls the ad space.



Connecting the Dots

At the 2020 AICPA Conference on Current SEC and PCAOB Developments, Geoff Griffin, then a professional accounting fellow in the SEC’s Office of the Chief Accountant (OCA), discussed a fact pattern in which a registrant operated a platform that facilitated an advertiser’s purchase of ad space from publishers. In that fact pattern, the registrant concluded that it was an agent despite momentarily obtaining legal title to the ad space before the ad space was transferred to the customer. The registrant determined that because of certain constraints, it could not direct the use of the potential ad space to advertisers other than the winning bidder.

- Does the adtech platform operator have exclusive rights to the publisher’s specified ad space regardless of whether it identifies a buyer? If so, do these contractual rights give the adtech platform operator the exclusive right to monetize the publisher’s ad space, including identifying the creative ads, deciding placement on the publisher’s digital property, and redirecting the ad space between different buyers? Exclusivity may indicate that the adtech platform operator can prevent other entities, including the publisher, from directing the use of the ad space, which may suggest that the entity obtains control of the publisher’s ad space.
- Which party is responsible for the acceptability of the ad space? Is the adtech platform operator responsible if the publisher fails to serve a creative ad as the result of technical error or latency issues, or if the creative ad is displayed on an ad space that is inconsistent with the advertiser’s campaign input parameters? Responsibility for the acceptability of the ad space is an indicator of control.

⁹ This list is not all-inclusive, and entities should consider their facts and circumstances when performing the assessment.

- Who sets the key input parameters in the adtech platform? Does the adtech platform operator have ultimate discretion over all key decisions related to buying or selling ad space, including the parameters used by the platform to buy and sell the ad space? Alternatively, is the adtech platform marketed as a self-service model in which all decisions are made by the buyers and sellers who are provided with access to the platform? In a self-service model, buyers and sellers typically control the input parameters, suggesting that the adtech platform operator does not have the ability to direct the use of the ad space. Conversely, if the adtech platform operator is responsible for setting and changing the key parameters for purchasing and selling ad space, this may indicate that the adtech platform operator has the ability to direct the use of the ad space.



Connecting the Dots

At the 2017 AICPA Conference on Current SEC and PCAOB Developments, Barry Kanczucker, then an associate chief accountant in the SEC's OCA, discussed a fact pattern in which a registrant used its technology to identify and purchase advertising space that met the advertiser's specification on a real-time basis. The registrant had the ultimate discretion, including over pricing, for individual purchases of advertising space, and the advertiser held the registrant responsible for reaching the advertiser's target audience and otherwise meeting the advertiser's specifications. In addition, the advertiser did not specify the Web sites or apps for which the registrant purchased the advertising space. In that fact pattern, the registrant concluded that it was the principal because it controlled the advertising space before the space was transferred to the advertiser, noting as part of its control assessment that it was primarily responsible for fulfillment and had discretion in establishing the price.

- Does the adtech platform operator provide a significant service of integrating the publisher's ad space with other services, including access to the adtech platform? While adtech platforms are technologically integrated with publishers' ad space and the broader programmatic advertising ecosystem, this integration is often solely to participate in programmatic advertising and is not viewed as a "significant" level of integration that would support a conclusion that the promises are not distinct. Rather, this level of integration is to ensure that the matchmaking is transparent, automated, and efficient.

Illustrative Examples

The examples below illustrate how an entity may evaluate control over ad space. Each example illustrates whether an entity acts as a principal or an agent when it facilitates programmatic advertising. Entities will need to exercise judgment when evaluating their facts and circumstances, and they may reach different conclusions depending on their unique facts and circumstances.

Example 2

Company A, an adtech company, offers a self-service, cloud-based, sell-side platform (the "S-Platform") that enables Web site publishers (and entities acting on their behalf) to monetize their available ad space. The S-Platform allows Web site publishers to submit bid requests so that they can sell ad space programmatically via different auction types (e.g., open, private, preferred, or guaranteed). Further, the S-Platform includes enhanced features, such as data analytics, pricing strategies, and real-time monitoring.

Example 2 (continued)

Company A enters into nonexclusive licensing agreements with Web site publishers that give the publishers the right to access the S-Platform for a specific period so that they can sell ad space programmatically to buyers (i.e., advertisers, entities acting on behalf of advertisers, or both). The Web site publishers are responsible for setting the key parameters in the S-Platform that guide the platform's algorithms, such as the minimum bid price or floor price, the type of acceptable ads, the method of auction, and preferred buyers.

Company A does not promise the Web site publishers a specified number of sales or otherwise run campaigns for them. Company A also does not prepurchase ad space for resale or commit to a certain number of purchases. Further, A does not have exclusive rights to a Web site publisher's ad space. Thus, a Web site publisher can make its ad space available on the S-Platform and other unrelated platforms.

While buyers enter into nonexclusive licensing agreements that govern the use of the S-Platform, these agreements do not contain any terms and conditions that affect the amount of consideration that A or a Web site publisher will ultimately receive. Company A does not promise a good or service to a buyer in exchange for consideration; instead, it provides the buyer with access to the S-Platform to enhance the Web site publisher's access.

Company A's standard terms and conditions indicate that the Web site publishers are solely responsible for providing the ad space purchased and any necessary refunds. These standard terms and conditions are agreed to by the buyers that transact with the S-Platform. In addition, A is not liable for any creative ads that are not displayed by the Web site publishers, including any obligations by the publishers to provide refunds for issues with purchased ad space.

Once a buyer wins an auction, A collects payment from the buyer and remits an amount, net of its commission, to the Web site publisher. Company A has the discretion to adjust the minimum price established by the Web site publisher to ensure that the price generates sufficient commission for A's services. Company A has an enforceable right to charge back any refunds, for example, if the creative ad does not successfully load as the result of an error with the Web site publisher's platform.

When a buyer wins an auction, A cannot legally redirect the ad space to another buyer. While the S-Platform is technologically integrated with a Web site publisher's available ad space, this integration is solely to ensure that matchmaking is effective and is not viewed as A's providing a significant service of integrating the S-Platform with the ad space.

Revenue Recognition

Company A concludes that its contracts with the Web site publishers are within the scope of ASC 606 and that the Web site publishers are its customers. Company A identifies two promises in each contract with a Web site publisher: (1) provision of access to the S-Platform and (2) the ad space. In accordance with ASC 606, the ad space is evaluated as a specified good or service because it is the asset that is ultimately transferred to the buyer. If A concludes that it obtains control of the publisher's ad space, it would most likely identify the buyer as its customer, which would affect the amount of revenue recognized by A. In addition, since A is the only party that provides access to the S-Platform and has sole control over providing the S-Platform, A is the principal for the S-Platform and therefore presents revenue related to the access to the S-Platform on a gross basis.

Because the S-Platform facilitates the sale of a Web site publisher's ad space to potential buyers, A also needs to determine whether it controls (1) the ad space from the Web site publisher before the ad space is transferred to a buyer or (2) a right to the Web site publisher's ad space that gives A the ability to direct the Web site publisher to provide the ad space to a buyer on A's behalf. To make this determination, A considers the definition of control under ASC 606-10-25-25 and whether it has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the ad space.

Under A's standard terms and conditions, A has no legal ability to redirect the ad space to a different party other than the winning bidder or to prevent the Web site publisher from transferring the ad space to the winning bidder. Further, the Web site publisher controls what ad space is available on the S-Platform and sets the key parameters the S-Platform uses, such as minimum prices for ad spaces, type of acceptable ads, method of auction, and preferred advertisers. Lastly, A does not control when the ad space is available or where the creative ad is displayed; rather, the Web site publisher ultimately decides whether to make the ad space available for bid on the S-Platform and where the creative ad is displayed. Because of these considerations, A does not believe that it controls the ad space or the right to the ad space under ASC 606-10-25-25.

Example 2 (continued)

In addition, A considers the control indicators in ASC 606-10-55-39, which support its control assessment under ASC 606-10-25-25. Company A provides a platform that facilitates programmatic advertising to Web site publishers and buyers and collects a commission for facilitating transactions between these parties. Company A does so in a manner consistent with its standard terms and conditions, which indicate that the Web site publishers are solely responsible for satisfying the ad space purchased. Company A is not liable for any ad space not delivered by a Web site publisher. Moreover, A does not have front-end inventory risk (since it does not prepurchase ad space for resale or commit to a certain number of purchases) or back-end inventory risk. Lastly, although A has some discretion to adjust the amounts above the minimum price established by a Web site publisher to ensure that the price generates a commission on the transaction, this level of pricing discretion would not preclude a conclusion that A is an agent in the transaction.

On the basis of the discussion above, A concludes that it is a seller's agent in the sale of ad space and should present revenue related to such a sale on a net basis.

Example 3

Company B, an adtech company, offers a self-service, cloud-based, buy-side platform (the "D-Platform") that enables buyers to programmatically bid on ad space offered by mobile app publishers. The D-Platform leverages its predictive technology and algorithms to identify ad space on the basis of a buyer's selected bidding parameters. Company B is not engaged in creating or designing ads or in advising buyers regarding creative ad campaigns; however, B provides services limited to presenting creative ads (e.g., resizing creative ads to fit the ad space).

Company B enters into nonexclusive licensing agreements with buyers that give the buyers the right to access the D-Platform for a specific period so that they can programmatically bid on available ad space. The buyers have full transparency and control over which parameters they input into the D-Platform, and they are responsible for managing their own ad campaigns and determining how much they spend on a cost-per-installation basis. Once a buyer's budget is exhausted, the buyer must authorize any additional spending. On the basis of the parameters inputted by the buyers, the D-Platform bids for available ad space that generates the highest commission for B.

Company B does not promise any amount of ad space, and the determination of whether a buyer purchases ad space through the D-Platform is based on the parameters the buyer selects. Under the terms of the agreements, B is not responsible if a mobile app publisher fails to serve a creative ad as the result of technical error or latency issues, or if a creative ad is inconsistent with a buyer's campaign parameters. Further, B does not provide "returns" given the nature of the transactions and the timing of B's entitlement to consideration.

Company B contracts directly with mobile app publishers to enable buyers to place creative ads in their available ad space. Publishers download B's software and integrate the software tools with their mobile apps so that B can transfer and display creative ads on the publishers' apps. Although the D-Platform is technologically integrated with a publisher's available ad space, this integration is solely to ensure that matchmaking is effective and is not viewed as B's providing a significant service of integrating the D-Platform with the ad space. Further, B is not subject to any minimum purchase requirements under its contracts with the mobile app publishers, and it pays the mobile app publishers on a cost-per-mille basis.

If the D-Platform wins a buyer's bid for ad space, B momentarily has legal title to the ad space, which gives B the right to place any creative ad from any buyer in that ad space provided that the ad space meets the parameters established by the buyer and the parameters established by the publisher. Company B concludes that this legal right is not substantive because B does not have the practical or technological capabilities to redirect the ad space after the platform has submitted a bid associated with a specific buyer. From a technological capability standpoint, once a buyer has won the bid, the ad cannot be retrieved, redirected to a different buyer, or used by B. Further, redirecting a won bid to a different buyer would be inconsistent with B's standard terms and conditions.

Example 3 (continued)

Revenue Recognition

Company B concludes that its contracts with the buyers are within the scope of ASC 606 and that the buyers are its customers. Company B identifies two promises in each contract with a buyer: (1) provision of access to the D-Platform and (2) ad space. Since B is the only party that provides access to the D-Platform and has sole control over providing the D-Platform, B is the principal for the D-Platform and therefore presents revenue related to the access to the D-Platform on a gross basis.

Since the ad space involves a third party (a mobile app publisher), B needs to determine whether it controls (1) the ad space from the mobile app publisher before the ad space is transferred to the buyer or (2) a right to the mobile app publisher's ad space that gives B the ability to direct the publisher to provide the ad space to the buyer. To make this determination, B considers the definition of control under ASC 606-10-25-25 and whether it can direct the use of, and obtain substantially all of the remaining benefits from, the ad space.

Company B concludes that it does not control the ad space because its promise to the buyer is to provide access to the D-Platform, which gives the buyer the right to programmatically bid on available ad space. The buyer is ultimately responsible for setting the parameters on the D-Platform and managing all aspects of its ad campaigns. Further, B does not control when the ad space is made available because the mobile app publisher decides whether to make the ad space available for bid on the D-platform. Although B momentarily has the ability to place any creative ad in an ad space when the D-Platform wins a bid, B has concluded that this right is not substantive because B does not have the practical or technological capabilities to redirect the ad space after the platform has submitted a bid associated with a specific buyer. Lastly, redirecting a won bid to another buyer would be inconsistent with B's standard terms and conditions. On the basis of these considerations, B does not believe that it controls the ad space or the right to the ad space under ASC 606-10-25-25.

In addition, B considers the control indicators in ASC 606-10-55-39, which support its control assessment under ASC 606-10-25-25. Company B's promise to its customers is to provide them with access to the D-Platform to facilitate the purchase of ad spaces from mobile app publishers, which is consistent with B's standard terms and conditions. Company B has not promised its customers a specified number of ad spaces, and it has no fulfillment risk since it is not responsible for the acceptability of the ad space. Further, the buyers are responsible for all inputs into the D-Platform and therefore control the target audience, all related specifications associated with the ad space, and the amount that they wish to pay for the ad space. Moreover, B does not have front-end inventory risk (since it does not prepurchase ad space for resale or commit to a certain number of purchases) or back-end inventory risk. Lastly, although B has some discretion over the price of the ad space because the D-Platform will only allow bids that generate the highest commission for B to proceed, this level of pricing discretion would not preclude a conclusion that B is an agent in the transaction.

On the basis of the discussion above, B concludes that it is a buyer's agent in the purchase of ad space and should present revenue related to such a purchase on a net basis.

Example 4

Company C is an adtech company that provides services to advertisers. It engages directly with advertisers that seek to advertise on different digital platforms. However, C is not involved in creating or designing creative ads.

Company C enters into agreements with advertisers that specify the maximum amount that the advertisers are willing to spend over a specified period. Spending is based on a cost-per-mille model in which C is entitled to a fixed amount of consideration based on how many times the creative ad of an advertiser is viewed. Company C leverages its proprietary platform to place advertisers' creative ads in available ad space programmatically through various digital platforms and auction types. Company C markets itself as being able to maximize the ROAS for advertisers by using its proprietary technology. Although C provides advertisers with reports that enable them to assess the performance of their ad campaigns, it does not provide them with access to its proprietary platform.

Example 4 (continued)

Company C is responsible for all customer satisfaction related to the ad campaigns, ensuring that the creative ads are placed on relevant digital channels and that impressions are not from invalid bots or fraudulent transactions. Company C's terms and conditions provide it with ultimate discretion to determine the publishers' digital platforms on which to place the creative ads and the parameters to be used on its proprietary platform. The advertisers have certain protective rights that limit the types of publishers that can display their ads.

In addition to entering into agreements with advertisers, C enters into separate agreements with certain publishers that provide C with exclusive access to the publishers' premium ad spaces on their digital platforms. Each publisher's premium ad space is available solely for C's use; it cannot be used by another entity, including the publisher. The publisher connects its platform to C's platform, thereby enabling C to programmatically place creative ads in the publisher's premium ad space within a matter of milliseconds. Company C has the ability and right to change any creative ad placed in the premium ad space at its sole discretion and is not required to discuss the change with the advertiser or the publisher. Although the publisher may have some contractual ability to deny specific ads, or the ads of specific advertisers, from being placed in its premium ad space, this provision is a protective right to avoid having inappropriate creative ads placed on the publisher's platform.

To determine which creative ads are placed in available ad space to which C holds exclusive rights, C's proprietary platform uses algorithms that C exclusively controls. The algorithms are designed to maximize revenue by considering both the expected views and the billing rates that C can charge advertisers. Advertisers do not have the ability to control C's platform or direct C to place a specific creative ad on a particular publisher's digital platform. In addition, if C determines that it would benefit from the ad space, it can push its own creative ad rather than that of an advertiser.

Revenue Recognition

Company C concludes that its contracts with the advertisers are within the scope of ASC 606 and that the advertisers are its customers. Company C identifies one promise in each contract with an advertiser: to fulfill the advertiser's ad campaign by using C's proprietary platform. Company C does not provide the customer with access to C's platform.

Because C's promise to fulfill the advertiser's ad campaign involves ad space from a third party (a publisher), C needs to determine whether it controls (1) the ad space or (2) a right to the publisher's ad space that gives C the ability to direct the publisher to provide the ad space to the advertiser. To make this determination, C considers the definition of control under ASC 606-10-25-25 and whether it can direct the use of, and obtain substantially all of the remaining benefits from, the ad space.

Company C concludes that it controls the ad space (or a right to the publisher's ad space). Under C's terms and conditions, C has the ultimate discretion in deciding when and where to place the advertiser's creative ads, with the goal of maximizing the advertiser's ROAS. When C's proprietary platform wins a bid for ad space, C has the ability to redirect the ad space to any advertiser, including itself. Regarding the exclusive ad space, C has obtained the right to decide the placement of the creative ads and can prevent others from benefiting from the ad space (e.g., by choosing not to monetize the ad space). On the basis of these considerations, C believes that it controls the ad space and the right to the ad space under ASC 606-10-25-25.

In addition, C considers the control indicators in ASC 606-10-55-39, which support its control assessment under ASC 606-10-25-25. Although C does not have front-end inventory risk and has only limited back-end inventory risk, it has discretion over pricing and presents itself to the customer as the party responsible for the acceptability of the ad space and for appropriately identifying ad space that maximizes the advertiser's ROAS. Company C is also responsible for all customer satisfaction issues, including ensuring that all creative ads are placed on relevant digital channels and identifying and preventing fraudulent impressions. Further, C provides specific reporting to the customer so that the customer can monitor the performance of the ad campaigns.

On the basis of the discussion above, C concludes that it is a principal in transactions to acquire ad space and should present revenue related to those transactions on a gross basis.

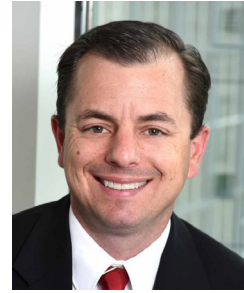
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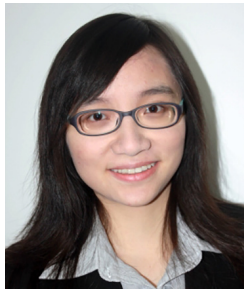
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