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## **Current accounting issues with variable consideration**

### **Cover Note**

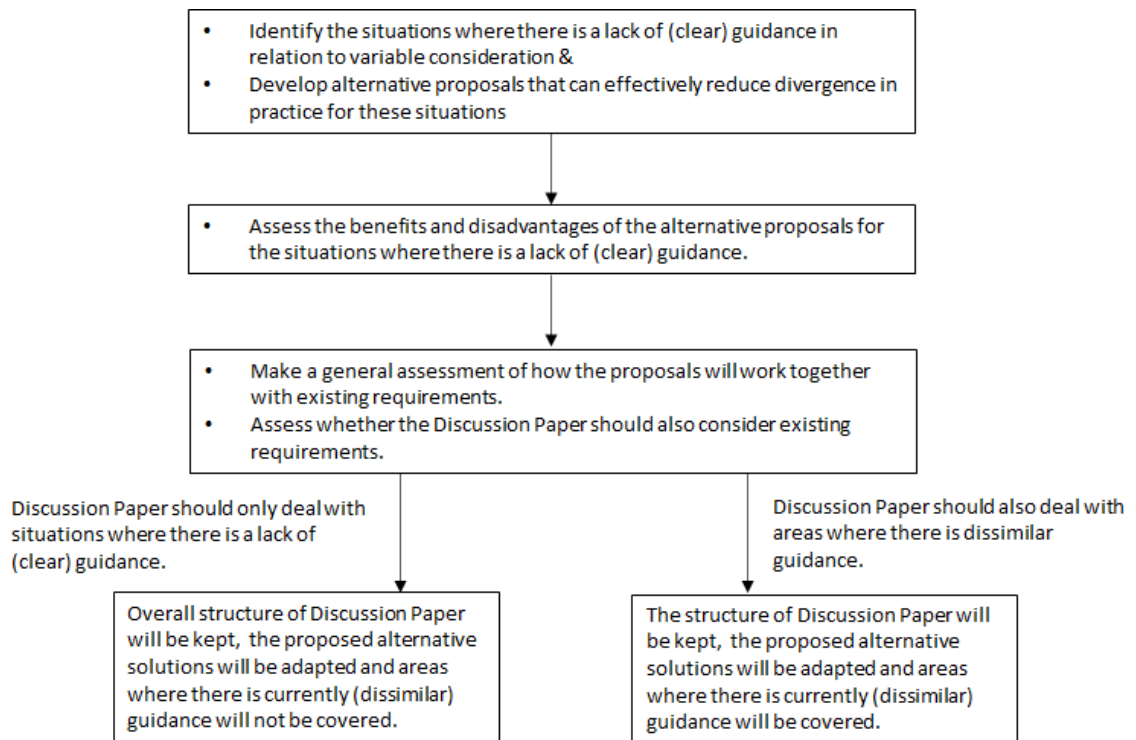
#### **Objective**

- 1 The objective for this session is to:
  - (a) Discuss whether the next discussion(s) of EFRAG TEG on variable consideration should focus on areas where divergence in practice has arisen as a result of lack of (clear) guidance;
  - (b) Discuss some simple examples of variable consideration where (clear) guidance may currently be lacking in order to:
    - (i) Identify where guidance is needed;
    - (ii) Consider possible guidance to fill the gap;
    - (iii) Assess whether the possible guidance will be effective in providing guidance to reduce divergence in practice.
- 2 The input from the session will be used to plan the next EFRAG TEG sessions on variable consideration and to advance on the drafting of the Discussion Paper.
- 3 Although EFRAG TEG at the session will be asked for directions on the next discussions, it will not be asked to make decisions about changes to the scope of EFRAG's Discussion Paper. Such a discussion is only envisaged at a later stage.

#### **Next steps**

- 4 Should EFRAG TEG agree to focus the next discussions on areas where divergence has arisen as a result of lack of (clear) guidance, the next steps of the project could be as illustrated in the flow chart below. It is worth noting that the flow chart does not illustrate the decision to be taken at the July 2021 EFRAG TEG meeting, but does only illustrate the suggested further process, should EFRAG TEG agree that the next discussion(s) should focus on areas where divergence in practice has arisen. In case EFRAG TEG would decide not to focus the next discussion(s) on areas where divergence in practice has arisen, the EFRAG Secretariat will also prepare discussions on how to account for variable consideration in a consistent manner in areas where (clear) guidance already exists.

## Variable consideration – Cover Note



- 5 As it appears from the flow chart, discussions of situations where there is currently a lack of (clear) guidance is assessed to be helpful for “fine-tuning” and assessing advantages and disadvantages of approaches to account for variable consideration also in the case where EFRAG’s Discussion Paper will deal with areas of dissimilar guidance.

### Background

- 6 Following the public EFRAG 2018 Research Agenda consultation, EFRAG added a project on variable and contingent consideration to its research agenda (since renamed variable consideration). The original objectives of the project were to:
- Identify the accounting issues around variable consideration;
  - Outline the information needs of users of financial statements in regard to variable consideration based on the objectives of general purpose financial reporting as stated in the IASB’s revised Conceptual Framework for Financial Reporting and after consultation with the EFRAG User Panel;
  - Compare the guidance across different IFRS Standards and assess the rationale (or lack thereof) for any differences in the requirements;
  - Develop alternative accounting approaches and illustrate their strengths and limitations; and
  - Consider potential improvements in presentation and disclosure.
- 7 Since 2019, EFRAG TEG and the EFRAG Board discussed the issues to be considered in the research at several meetings. The EFRAG User Panel has also been consulted on the project. The project only considers variable consideration from the perspective of the party that has to transfer variable consideration in exchange for an asset, i.e., the ‘buyer/acquirer’ perspective.
- 8 During some of its first discussions, EFRAG TEG agreed to consider consideration to be variable when the acquirer of a good or service may have to transfer additional assets in exchange for the good or service. It was also agreed not to focus the discussion on identifying the goods or services acquired for variable consideration are. Such a discussion was included in a draft discussion paper prepared by the FRC that EFRAG TEG has previously considered. The starting point of the

discussion paper is therefore that it has been identified that a good or service has been acquired for a consideration that is variable.

- 9 EFRAG TEG discussed an outlined Discussion Paper on variable consideration at its meeting in April 2021. Some of the comments made at that meeting, in the context of which the issues paper for this session and this cover note should be considered, were:
- (a) It was agreed that the DP should provide alternative approaches for determining the unit of account.
  - (b) It was agreed that the IFRS 16 approach for recognition of a liability for variable consideration should also be presented in the DP.
  - (c) Alternative principles that could be proposed in the DP should be 'tested' by considering the outcome when accounted for under existing IFRS Standards.
  - (d) It would be a challenge to discuss variable consideration without discussing the transactions behind. For example, in some cases a contract exists whereas this would not be the case in other situations. It was accordingly necessary that the DP referred to the underlying transaction when discussing accounting alternatives.
  - (e) It was suggested starting with a limited scope. For example, the acquisition of tangible and intangible assets for which there was a contract and for which the variable consideration was in cash.
  - (f) It should be further explored when an entity would not have a practical ability to avoid an obligation.
  - (g) The DP should propose new ideas than those that could be derived from the *Conceptual Framework* or from existing IFRS Standards.
- 10 In addition, the IASB observer noted that EFRAG could consider whether the Discussion Paper, to be most useful for the IASB, should focus on the areas where guidance is currently missing or also should focus on having similar transactions being accounted for similarly.

### **Agenda Papers**

- 11 In addition to this cover note, agenda paper 11-02 – *Identifying issues with variable consideration from examples* – has been provided for the session.