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Variable consideration
Mapping of existing IFRS guidance

Objective and introduction

1 The objective of this paper is for EFRAG TEG to discuss:

(a) a ‘mapping’ of existing IFRS Standards which consider variable consideration; and

(b) to what extent the differences in current guidance are warranted.

2 At the September 2021 EFRAG TEG meeting, in relation to the question on whether differences in existing IFRS guidance for variable consideration should be assessed, EFRAG TEG agreed to include in the Discussion Paper the reasons for differences across the guidance and ‘map’ the different guidance without trying to identify an approach that should be applied in all cases.

3 This paper ‘maps’ the current requirements with respect to:

(a) How to account for a liability to pay variable consideration. First, guidance on when to recognise variable consideration that depends on the purchaser’s future actions is considered. This is followed by a description of different recognition requirements/thresholds for different types of liabilities and variable consideration (also variable consideration that does not depend on the purchaser’s future actions). Then approaches on when to recognise a liability for variable consideration suggested by EFRAG TEG members are mentioned. Finally, guidance on how to measure a liability for variable consideration is considered.

(b) When to reflect variable consideration in the current and subsequent measurement of an asset measured at cost.

4 The purpose of listing this guidance is to facilitate the discussion of EFRAG TEG on:

(a) Possible approaches to account for variable consideration that depends on the purchaser’s future actions;

(b) How the current guidance can be ‘mapped’ in the Discussion Paper;

(c) Whether differences in current guidance related to variable consideration are warranted. In this regard, it should be noted that EFRAG TEG will only be asked whether the Discussion Paper should consider approaches for a general framework on how to account for variable consideration at a future meeting. However, when making such a decision, a discussion on whether the current differences are warranted could be useful input.

5 An overview of the relevant current IFRS requirements identified by the EFRAG Secretariat is provided in the Appendix. The EFRAG Secretariat welcomes any

proposals on how these requirements can be 'mapped' in a manner that would make the information more accessible than the tables in the Appendix.

Recognition and measurement of a liability for variable consideration

Guidance on when to recognise a liability for variable consideration

Variable consideration that depends on the purchaser's future actions

6 EFRAG TEG has previously agreed that there is currently no (clear) guidance on when to recognise a liability for variable consideration that depends on the purchaser's future actions when the variable consideration has to be paid by transferring a financial instrument. IFRS 9 *Financial Instruments* and IAS 32 *Financial Instruments: Presentation* do not include clear guidance on this issue.

7 The underlying argument for not recognising a liability is that when the variable consideration payments are dependent on the purchaser's future activity, the initial recognition criteria of a financial liability are not met until the activity requiring the payment is performed. Until then, the variable payments are avoidable. Proponents of this view point to the guidance in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. According to paragraph 19 of IAS 37 "[i]t is only those obligations arising from past events existing independently of an entity's future actions (i.e., the future conduct of its business) that are recognised as provisions".

8 As noted in Paper 10-02, in addition to paragraph 19 of IAS 32, paragraph 25 of IAS 32 could also be used as an argument for not recognising a liability for variable consideration that depends on the purchaser's future actions. That paragraph states: "A financial instrument may require the entity to deliver cash or another financial asset, or otherwise to settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the issuer and the holder of the instrument, such as a change in a stock market index, consumer price index, interest rate or taxation requirements, or the issuer's future revenues, net income or debt to equity ratio. The issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability)."

9 On the other hand, an argument made by those who consider that a financial liability exists when the variable payment is dependent on the purchaser's future actions is that the contract is not executory as the other party (in this case the seller), has performed/delivered the asset. They also note that IFRS 9 requires financial liabilities to be measured at fair value on initial recognition (plus or minus transaction costs in certain cases) and consider that excluding a subset of variable payments from the initial measurement of the financial liability is inconsistent with a fair value measurement approach. They argue that a market participant would consider those variable payments when estimating the fair value of the liability to make variable payments.

10 Those who consider that a financial liability exists when the variable payment is dependent on the purchaser's future actions also refer to paragraphs 19 and 25 of IAS 32, but read those paragraphs differently than those who do not think that a financial liability exists.

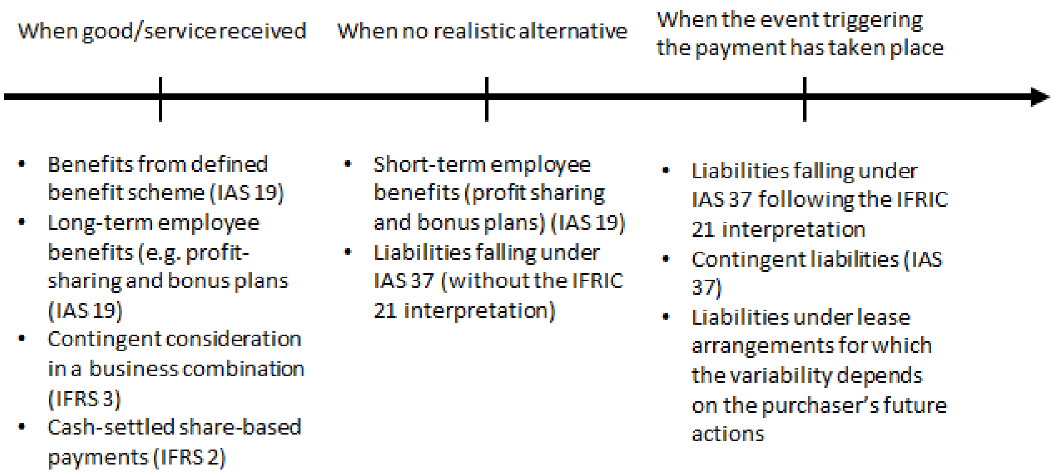
11 They note that IAS 32 states in paragraph 19: "If an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability, except for those instruments classified as equity instruments".

12 Those who consider that a financial liability exists even when the variable payment is dependent on the purchaser's future activity notes that paragraph 25 of IAS 32

13 They note that paragraph 25 of IAS 32 states that future revenues, net income or debt-to-equity ratio is considered to be beyond the control of the issuer according to IAS 32 and they think by analogy that the issuer's future activity (or future performance) is also beyond the control of the issuer. As a result, variable payments that depend on the purchaser's future activity should be recognised as financial liabilities on the date of purchase of the asset.

14 Against this argument, those who do not consider that a financial liability exists, note that paragraph 25 of IAS 32 was the result of the incorporation of SIC-5 *Classification of Financial Instruments — Contingent Settlement Provisions* into the revised version of IAS 32 (2003). SIC-5 stated that financial instruments such as shares or bonds for which the manner of settlement depends on the outcome of uncertain future events that are beyond the control of both the issuer and the holder are financial liabilities. SIC-5 did not address the accounting for financial liabilities that are related to the acquisition of a non-financial asset.

15 For other types of liabilities/potential obligations, different guidance exists. In the illustration below, the EFRAG Secretariat has tried to map, in a simplified manner, existing guidance for variable consideration that could depend on the purchaser's future actions.



16 The reasons for the guidance, when available in the Basis for Conclusions accompanying the IFRS Standards and IFRIC Interpretations, are provided below.

<u>When good or service received</u>

17 It should be mentioned that the above-listed requirements for recognising a liability for variable consideration when a good or service is received do not distinguish between variable consideration depending on the purchaser's future actions and variable consideration depending on factors outside the control of the purchaser.

18 The reasons provided in the Basis for Conclusions for including variable consideration in the measurement of the liability are:

(a) An obligation exists even if a benefit is not vested (benefits from defined benefit schemes and other long-term employee benefits covered by IAS 19 *Employee Benefits*).

(b) To be consistent with the requirements in IAS 19. The Basis for Conclusions accompanying IFRS 2 *Share-based Payment*[1] states that it could be argued

[1] As it has previously tentatively been decided to exclude payment with an entity's own equity instrument from the discussion, only cash-settled share-based payment is considered in this Paper.

that the entity does not have a liability until vesting date, because the entity does not have a present obligation to pay cash to the employees until the employees fulfil the conditions to become unconditionally entitled to the cash; between the grant date and vesting date there is only a contingent liability. However, the IASB noted that this would apply to all sorts of employee benefits and to be consistent with IAS 19 it decided to recognise a liability for cash-settled share-based payments as service would be provided by employees.

(c) Although the amount of future payments the acquirer will make is conditional on future events, the obligation to make them if the specified future events occur is unconditional (IFRS 3 *Business Combinations*). (In relation to payments for business combinations, the IASB concluded that the delayed recognition of contingent consideration in their previous standards on business combinations was unacceptable because it ignored that the acquirer's agreement to make contingent payment is the obligation event in a business combination transaction).

<u>When no realistic alternative</u>

19 There is no explanation in the Basis for Conclusions for the requirements to recognise a liability for variable consideration under IAS 37 (without the IFRIC 21 interpretation) when the purchaser does not have 'any realistic alternative' other than to pay the variable consideration. The EFRAG Secretariat, however, notes that this approach could be the approach that would be most consistent with the Conceptual Framework. For short-term employee benefits under IAS 19, the IASB seems subsequently to have considered that the different requirements for short-term employee benefits compared to long-term employee benefits could be based on practical considerations. It is thus noted in the Basis for Conclusions (paragraphs BC16 – BC17):

> The amendments made in 2011 clarify that the classification of benefits as short-term employee benefits depends on the period between the end of the annual reporting period in which the employee renders the service that gives rise to the benefit and the date when the benefit is expected to be settled.
>
> The Board's objective in defining the scope of the short-term employee benefits classification was to identify the set of employee benefits for which a simplified measurement approach would not result in measuring those benefits at an amount different from the general measurement requirements of IAS 19.

<u>When the event triggering the payment has taken place</u>

20 The IFRS Interpretations Committee's reason for only recognising a liability for a levy when the event triggering the payment has taken place is included in the Basis for Conclusions accompanying IFRIC 21 *Levies*. In this Basis for Conclusions (paragraphs BC17 – BC18), it is

> acknowledged that, in some circumstances, an obligating event can occur only if other events have occurred previously. For example, for some levies, the entity paying the levy must have undertaken an activity both in the previous and in the current periods in order to be obliged to pay the levy. The Interpretations Committee noted that the activity undertaken in the previous period is necessary, but not sufficient, to create a present obligation. Consequently, the Interpretations Committee concluded that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. In other words, the liability to pay a levy is recognised when the activity that triggers the payment of the levy occurs, as identified by the legislation.
>
> [...]
>
> The Interpretations Committee noted that a levy is triggered as a result of undertaking an activity in a specified period, as identified by the legislation. As a result, the Interpretations Committee concluded that there is no constructive obligation to pay a levy that relates to the future conduct of the business, even if:

(a) it is economically unrealistic for the entity to avoid the levy if it has the intention of continuing in business;

(b) there is a legal requirement to incur the levy if the entity does continue in business;

(c) it would be necessary for an entity to take unrealistic action to avoid paying the levy, such as to sell, or stop operating, property, plant and equipment;

(d) the entity made a statement of intent (and has the ability) to operate in the future period(s); or

(e) the entity has a legal, regulatory or contractual requirement to operate in the future period(s).

21 The reason included in the Basis for Conclusions accompanying IFRS 16 *Leases* shows that IASB members had different reasons for not requiring/allowing a liability for variable consideration (that is not in-substance fixed payments nor varies with an index or rate) to be recognised at the commencement of a lease agreement. The Basis for Conclusions for IFRS 16 (paragraph BC 169) thus states:

> The IASB decided to exclude variable lease payments linked to future performance or use of an underlying asset from the measurement of lease liabilities. For some Board members, this decision was made solely for cost-benefit reasons. Those Board members were of the view that all variable lease payments meet the definition of a liability for the lessee. However, they were persuaded by the feedback received from stakeholders that the costs of including variable lease payments linked to future performance or use would outweigh the benefits, particularly because of the concerns expressed about the high level of measurement uncertainty that would result from including them and the high volume of leases held by some lessees. Other Board members did not think that variable lease payments linked to future performance or use meet the definition of a liability for the lessee until the performance or use occurs. They regarded those payments to be avoidable by the lessee and, accordingly, concluded that the lessee does not have a present obligation to make those payments at the commencement date. In addition, variable lease payments linked to future performance or use could be viewed as a means by which the lessee and lessor can share future economic benefits to be derived from use of the asset.

22 Furthermore, EFRAG, in its comment letter on the IFRS 16 Exposure Draft, agreed with the proposals on the measurement of variable lease payments, i.e., variable lease payments should not be included in the measurement of lease assets and liabilities with some exceptions.

23 Also, EFRAG, in its comment letter on the Lease Liability in Sale and Leaseback Exposure Draft, considered that the ED provided evidence of the existence of a conflict of principles between two main principles:

(a) the exclusion of variable lease payments (not based on an index or rate) from the definition of lease payments for the initial measurement of standalone leases; and

(b) the principle that when entering into a sale and leaseback transaction there should not be any gain on the interest retained by the seller-lessee; which, in turn, leads to the inclusion of such variable payments in the initial measurement of the lease liability and the right-of-use asset.

Different types of liabilities and variability

24 While the paragraphs above show that current guidance differs on when a purchaser should recognise a liability for variable consideration, the EFRAG Secretariat also notes that the nature of variability may differ by transaction type.

Recognition thresholds

25 Current guidance consists of differing requirements on when variable consideration would result in a liability and this includes differing recognition thresholds. For liabilities that would be recognised in accordance with IFRS 9, there would be no

additional recognition thresholds (to the extent that a contract exists). In the Basis for Conclusions accompanying IAS 32, the IASB explains why they did not include a 'probability threshold' for financial liabilities. The IASB thus concluded that:

> [I]t is not consistent with the definitions of financial liabilities and equity instruments to classify an obligation to deliver cash or another financial asset as a financial liability only when settlement in cash is probable. There is a contractual obligation to transfer economic benefits as a result of past events because the entity is unable to avoid a settlement in cash or another financial asset unless an event occurs or does not occur in the future.

26 For long-term employee benefits covered by IAS 19 there are generally also no recognition thresholds. IAS 37, on the other hand, requires that a liability is only recognised to the extent the liability can be reliably estimated and it is probable that it will result in an outflow of economic resources.

Suggestions of EFRAG TEG members

27 At previous EFRAG TEG meetings, EFRAG TEG members have suggested the following conflicting approaches for a consistent recognition of a liability for variable consideration:

(a) A liability is recognised to the extent the variability would relate to the quality/value of the acquired asset. In other cases, a liability is not recognised.

(b) A liability is not recognised to the extent the variability would relate to the quality of the acquired asset. In other cases, a liability is recognised.

(c) A liability for variable consideration is always recognised when a good or service is received (also if the variability depends on the purchaser's future actions).

(d) A liability is always recognised for variable consideration when a good or service is received. However, the variable consideration will only be included in the measurement of the liability to the extent that it is highly probable that a significant reversal in the amount recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved (an approach mirroring IFRS 15 *Revenue from Contracts with Customers*).

Guidance for measurement of variable consideration

28 A liability to pay variable consideration is measured differently depending on which IFRS Standard the liability would be covered by.

29 Liabilities covered by IFRS 9 would be measured at either amortised cost or fair value depending on the facts and circumstances.

30 When a liability would be covered by IAS 37, it is measured at the amount that the entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. Risks and uncertainties are taken into account in measuring a provision. A provision is discounted to its present value.

31 The variability is measured using the 'best estimate'. IAS 37 explains that when the provision being measured involves a large population of items, the obligation is estimated at the expected value. However, when a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability.

32 If the liability would be a cash-settled share-based payment, it would be measured at the fair value (with the corresponding goods and services measured by reference to the liability). The fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. This means that market-based performance conditions and non-vesting conditions are reflected in the 'fair value',

but non-market performance conditions and service conditions are not – these are reflected in the estimate of the number of awards expected to vest.

33 If the liability relates to a lease agreement, it is measured at the present value of the future lease payments.

34 Short-term employee benefits are measured at the undiscounted amount expected to be paid. Long-term employee benefits are measured using a particular approach described in IAS 19 reflecting the discounted value of a reliable estimate of the ultimate cost using actuarial technique and splitting the ultimate cost using the projected unit credit method.

Measurement of an acquired asset at cost

Current guidance

35 Current guidance on the extent to which the cost of an acquired asset should reflect (changes in estimates of) variable consideration are summarised in the Appendix.

36 For liabilities for variable consideration, the EFRAG Secretariat only identified a lack of (clear) guidance when variable consideration would depend on future actions of the purchaser. In relation to the measurement the acquired asset, divergence in practice has been identified on how changes in the estimate of variable consideration are reflected in the measurement at cost of an asset for all types of variable consideration (i.e., not only variable consideration depending on the purchaser's future actions).

37 The table below illustrates the different – and in some cases conflicting guidance.

Changes in estimates of variable consideration updates measurement of an acquired asset	Changes in estimates of variable consideration do not update the measurement of an acquired asset
Changes in estimates of costs of dismantling and removing the item and restoring the site on which it is located (IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* (IAS 16 *Property, Plant and Equipment* and IFRS 16)).	Changes in financial liabilities measured at amortised cost or fair value through profit or loss (IFRS 9).
Entitlement to rebates and trade discounts (does not appear directly, but follows from the fact that these covers volume discounts) (IAS 2 *Inventories*, IAS 16, IAS 38 *Intangible Assets*).	Changes in contingent consideration for the acquisition of a business – to the extent the change does not result from additional information about facts and circumstances that existed at the acquisition date (IFRS 3).
Changes in variable consideration in a lease arrangement that is initially reflected in the measurement of a right-to-use asset (that is, changes in in-substance fixed lease payments and changes in variable lease payments linked to a rate or index) (IFRS 16).	Changes in variable consideration in a lease arrangement that is not initially reflected in the measurement of a right-to-use asset (other changes than changes in in-substance fixed lease payments and changes in variable lease payments linked to a rate or index) (IFRS 16).

38 There are no Basis for Conclusions explaining why (volume) discounts should be deducted from the cost of an asset and why changes in the measurement of a

financial liability should be included in profit or loss. However, the background for the decisions related to the following requirements are available:

(a) How to account for estimates of costs of dismantling and removing the item and restoring the site on which it is located (IFRIC 1);

(b) Changes in variable consideration in a lease arrangement (IFRS 16); and

(c) Changes in contingent consideration for a business (IFRS 3).

39 In relation to the accounting for estimates of costs of dismantling and removing the item and restoring the site on which it is located, it is first noted in the Basis for Conclusions accompanying IAS 16 (paragraph BC15) that:

> The Board observed that whether the obligation is incurred upon acquisition of the item or while it is being used, its underlying nature and its association with the asset are the same. Therefore, the Board decided that the cost of an item should include the costs of dismantlement, removal or restoration, the obligation for which an entity has incurred as a consequence of having used the item during a particular period other than to produce inventories during that period.

40 In the Basis for Conclusions accompanying IFRIC 1, it is then noted that the IFRS Interpretations Committee

> took the view that revisions to the estimates of those costs [decommissioning costs], whether through revisions to the estimated outflows of resources embodying economic benefits or revisions to the discount rate, ought to be accounted for in the same manner as the initial estimated cost.

41 The reference to the revision of the initial estimate is also part of the reason for IFRS 16 requiring changes in the types of variable consideration that is initially included in the cost of a right-of-use asset to adjust the cost of that asset, while changes in estimates related to the types of variable consideration not initially included in the cost should be recognised in profit or loss.

42 The Basis for Conclusions accompanying IFRS 16 thus states (paragraph BC192):

> The IASB decided that, if a lessee remeasures its lease liability to reflect changes in future lease payments, the lessee should recognise the amount of the remeasurement as an adjustment to the cost of the right-of-use asset. The IASB considered whether some changes to the measurement of the lease liability should be recognised in profit or loss because, for example, the reassessment of an option or a change in an index or a rate could be viewed as an event relating to the current period. However, the IASB decided that a lessee should recognise the remeasurement as an adjustment to the right-of-use assets for the following reasons:
>
> (a) a change in the assessment of extension, termination or purchase options reflects the lessee's determination that it has acquired more or less of the right to use the underlying asset. Consequently, that change is appropriately reflected as an adjustment to the cost of the right-of-use asset.
>
> (b) a change in the estimate of the future lease payments is a revision to the initial estimate of the cost of the right-of-use asset, which should be accounted for in the same manner as the initial estimated cost.
>
> (c) the requirement to update the cost of the right-of-use asset is similar to the requirements in IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. IFRIC 1 requires an entity to adjust the cost of the related asset for a change in the estimated timing or amount of the outflow of resources associated with a change in the measurement of an existing decommissioning, restoration or similar liability.

43 On the other hand, according to the Basis for Conclusions accompanying IFRS 3 (paragraph BC357):

> the boards concluded that subsequent changes in the fair value of a liability for contingent consideration do not affect the acquisition-date fair value of the consideration transferred.

> Rather, those subsequent changes in value are generally directly related to post-combination events and changes in circumstances related to the combined entity. Thus, subsequent changes in value for post-combination events and circumstances should not affect the measurement of the consideration transferred or goodwill on the acquisition date.

44 The EFRAG Secretariat acknowledges that there may be a difference between accounting for assets accounted for under IAS 2, IAS 16 and IFRS 16 versus accounting for assets in business combinations, as most assets acquired and liabilities assumed in a business combination are initially measured at fair value. In addition, if changes in variable consideration should subsequently be reflected in the measurement of assets acquired in a business combination, it would require the change to be split across the various assets acquired, which could be a practical problem.

45 The EFRAG Secretariat could thus see good reasons for reflecting changes in the estimate for variable consideration for a business differently from variable consideration for a specific good or service. However, there still seems to be an inconsistency between the cost guidance in some standards and the requirements in IFRS 9 to recognise changes in expected cash flows of a financial liability in profit or loss.

46 The EFRAG Secretariat also notes that the idea of updating a cost measure is also reflected in the IASB's Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities*. This Exposure Draft proposes a modified historical cost approach where the estimates of the amount and timing of future cash flows are updated (and discounted). According to the Basis for Conclusions accompanying, the IASB selected modified historical cost as the measurement basis because:

> In the Board's view, using that measurement basis would provide useful information about an entity's regulatory assets and regulatory liabilities, and about regulatory income and regulatory expense recognised as a result (paragraph BC132).

Suggestions of EFRAG TEG members

47 At the September 2021 EFRAG TEG meeting, an approach was suggested by EFRAG TEG members for when changes in estimates of variable consideration should be reflected in the cost of an acquired asset. Under the proposed approach, changes in the estimate of variable consideration should be reflected to the extent the variability relates to the quality/value of the asset. In other cases, subsequent changes should be included in profit or loss (this approach should either be combined with the approach for recognising a liability for variable consideration explained in paragraph 27(a) or 27(c) above).

Questions for EFRAG TEG

48 Does EFRAG TEG have any suggestions on how the different current requirements related to variable consideration can be 'mapped' in the Discussion Paper?

49 Are there any other existing IFRS requirements that should be taken into account in this 'mapping' or are there requirements considered in this paper, that should not be included in the Discussion Paper?

50 Does EFRAG TEG agree with how the current requirements have been interpreted/'mapped' in this Paper?

51 The EFRAG Secretariat is unsure about whether the development of a consistent accounting treatment across variable consideration transactions can be realistically developed and included in the Discussion Paper and notes that it has not yet been decided whether the Discussion Paper should include such a suggestion. EFRAG TEG will consider this at a forthcoming meeting. Considering the different guidance for when to recognise a liability for variable consideration (that depends on the purchaser's future actions), the different types of variability and liabilities and the reason for the guidance included in the Basis for Conclusions, does EFRAG TEG considers that the current differences are justified (if so, for what reasons?). Alternatively, would EFRAG TEG consider that current guidance is unjustifiable inconsistent (if so, what would be a preferable consistent treatment (if different from the approaches mentioned in paragraph 27?)?

As it appears above, the EFRAG Secretariat could understand that, for example:

(a) Changes in estimates of contingent consideration in a business combination are not reflected in the measurement of the acquired assets (and assumed liabilities) whereas changes in variable lease payments linked to a rate or index are reflected in the measurement of the right-of-use asset (see paragraph 44 above).

(b) A liability for short-term employee benefits is only recognised when purchaser/employer does not have any realistic alternative other than to pay the variable consideration while a defined benefit pension liability is recognised (see paragraphs above).

On the other hand, it is more difficult for the EFRAG Secretariat to, for example, understand why:

(a) A liability to pay a levy is only recognised (or only exists) when the event triggering the payment has taken place, but a liability for a long-term employee benefit exists even if a benefit is not vested. (Could it be a justification that each levy would typically be different and be considered separately while long-term employee benefits often would be considered in a bundle? Or is the reason that it is more questionable whether you receive a good or a service from a levy than from an employee (and there is accordingly not the same 'matching' issue for a levy than for an employee benefit?)

(b) A liability for variable consideration is only recognised if it is probable that it will result in an outflow of economic resource if the liability would be covered by IAS 37, whereas this would not be a constraint for recognising a financial liability. (Could a justification be that a financial liability is initially measured at fair value?)

(c) A liability for variable consideration should be measured at fair value if the liability falls under IFRS 9, but at 'best estimate' if it is covered by IAS 37. (Could a justification be that a weighted average measurement (which fair value reflects) will always be the 'best estimate' for financial liabilities and also that a market-based exist price is more relevant for financial liabilities than for liabilities covered by IAS 37? If so, could it also be justified that an asset is measured differently depending on the type of the related liability to the extent the measurement of the liability is reflected in the measurement of the asset?)

(d) Changes in estimates of a financial liability related to variable consideration are not reflected in the measurement of the acquired asset whereas changes in variable lease payments linked to a rate or index are reflected in the measurement of the right-of-use asset.

52 How does EFRAG TEG consider the suggestions on how to account for variable consideration (see paragraphs 27 and 47) reflect current requirements?

	IAS 19	IAS 19	IAS 19	IAS 32/ IFRS 9	IAS 37/ IFRIC 21	IAS 37 (provision)/ IFRIC 21	IAS 37 (contingent liability)	IFRS 2 (cash-settled)	IFRS 3	IFRS 16	IFRS 16	IFRS 16
What is variable consideration ('VC') considered in the standard?	Employees entitled to additional (short -term) payment	Employees entitled to DBP	Employees entitled to additional (long -term) payment	VC in cash or other financial assets	Purchaser bearing costs of dismantling and removing the item and restoring the site	When a liability of an uncertain amount that is not covered by other standards is taken on as part of an acquisition of a good or service	When a possible obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, that is not covered by other standards	The amount to be paid in cash based on the price or value of equity instruments of the entity	An obligation of the acquirer to transfer additional assets or equity interests if specified future events occur or conditions are met.	Whether an entity would have to pay an additional consideration based on something that in substance is unavoidable	When an entity would have to pay more or less for a right-of-use asset depending on the changes in an index or rate	When an entity would have to pay more or less for a right-of-use asset depending on something else than the changes an index or rate
Obligation type / type of contract	Payment for services received from employees	DBP	Payment for services received from employees	Any payment in cash or other financial assets not covered specifically by another standard	Any	Any	Any	Share-based payment	Any	Leasing - lessee	Leasing - lessee	Leasing - lessee
Variability depends on	Profit-sharing and bonus plans	Factors related to entitlement at retirement/ demographic factors	Profit-sharing and bonus plans; LT disability benefits	Any	Cost of dismantling, removing the item and restoring the site on which the item is located.	Any	Any	The price or value of equity instruments of the entity	Any	In substance fixed	Index or rate	Anything else than index or rate or residual value guarantee (when not in substance fixed)
Resource to be transferred	Any	Any	Any	Cash or another financial asset	Any	Any	Any	Cash	Any	Any	Any	Any
Recognition requirements	Legal or constructive obligation as a result of past	When an employee is covered by a defined	When an employee renders service	When the entity becomes party to the	When there is a present obligation as a result of a past	When there is a present obligation as a result	Not recognised	When good or service	When the acquirer obtains	At the commencement date of	At the commencement date of	When an event or condition that triggers

	IAS 19	IAS 19	IAS 19	IAS 32/ IFRS 9	IAS 37/ IFRIC 21	IAS 37 (provision)/ IFRIC 21	IAS 37 (contingent liability)	IFRS 2 (cash-settled)	IFRS 3	IFRS 16	IFRS 16	IFRS 16
	events and can be estimated reliably (specific guidance)	benefit plan has rendered service to the entity	(exception for disability benefits)	contractual provisions of the instrument and settled in such a way that it would be a financial liability in the event that are beyond the control of both the issuer and the holder	event which means the entity has no realistic alternative to settling the obligation, economic outflows are probable, and a reliable estimate can be made	of a past event which means the entity has no realistic alternative to settling the obligation, economic outflows are probable, and a reliable estimate can be made		is received	control of the acquiree	the lease agreement	the lease agreement	payment occurs
Initial measurement	Undiscounted expected amount to be paid	PV of a reliable estimate of the ultimate cost	PV of a reliable estimate of the ultimate cost	Fair value minus transaction cost (if not a liability at FVPL)	PV of best estimate of expenditure required to settle the obligation at the end of the reporting period.	PV of best estimate of expenditure required to settle the obligation at the end of the reporting period.	N/A	FV of the liability recognised immediately unless not vested	Fair value	PV of unpaid payments of the lease term	PV of unpaid payments for the lease term using the index or rate as at the commencement date	Not relevant
Subsequent measurement	Same as initial measurement	Same as initial measurement	Same as initial measurement	Amortised cost or fair value	Same as initial measurement	Same as initial measurement	N/A	Same as initial measurement	Fair value	Same as initial measurement	Same as initial measurement	Not relevant

Measurement at cost of an asset as per existing IFRS Standards

	IAS 16/IAS 38	IAS 16/IFRS 16/IFRIC 1	IFRS 9	IFRS 3	IFRS 16	IFRS 16	IFRS 16
Variability depends on	Entitlement to rebates and trade discounts	Costs of dismantling and removing the item and restoring the site on which it is located (or restoring the underlying asset to the condition required by the terms and conditions of the lease)	Any variability that will affect the outflows	Any variability that will affect whether additional assets should be transferred	In substance fixed	Index or rate	Anything else than index or rate or residual value guarantee (when not in substance fixed)
Resources to be transferred	Any	Any	Financial assets	Any	Any	Any	Any
Type of assets	PPE, intangible assets	PPE, right-of-use asset	Any	Various	Right-of-use asset	Right-of-use asset	Right-of-use asset
Is variable consideration capitalised or expensed	Deducted from cost	Capitalised – cost updated	Expensed	Initial estimate is capitalised Subsequent changes expensed	Capitalised – cost updated	Capitalised – cost updated	Expensed
Measurement initially	Not specified when discount should be reflected (e.g., when it is probable or it has been 'earned'	(Initial (IAS 16)) estimate of the cost which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period	n/a	Fair value	At the related liability	At the related liability	n/a