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Accounting for variable consideration

Cover Note

Objective

- 1 The objective of this session is for the EFRAG FR Board to have an educational session regarding EFRAG's Discussion Paper *Accounting for variable consideration* as a precursor to the approval of the Discussion Paper.

Introduction

- 2 In its meeting on 19 May, EFRAG FR TEG discussed the latest version of EFRAG's Discussion Paper (which has been uploaded as Agenda Paper 05-02). The Appendix to this cover note summarises changes that will be made to the Discussion Paper, based on the EFRAG FR TEG discussions at that meeting.
- 3 The expected timeline for the approval of the EFRAG Discussion Paper is as follows:

28 - 29 June 2022	EFRAG FR TEG recommendation to the EFRAG FR Board
To be planned	EFRAG FR Board approval

Question for EFRAG FR Board

- 4 Does EFRAG FR Board have any comments?

Agenda Papers

- 5 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 05-02 – Slides on EFRAG's Discussion paper; and
 - (b) Agenda paper 05-03 – Latest version of the EFRAG Discussion Paper that was discussed at the May 2022 EFRAG FR TEG meeting.

Appendix: Summary of changes to be made subsequent to the 19 May EFRAG FR TEG meeting

- 6 In Chapters 2 and 3, the term ‘approaches’, which is used to describe the Discussion Paper’s proposed solutions to the accounting challenges respectively addressed in these chapters will be replaced with the term ‘alternatives’.
- 7 In Chapter 2 that addresses the recognition of liabilities for variable consideration, the main amendment will be that the Discussion Paper will only consider alternatives (previously referred to as approaches) that are derived from the criteria of the Conceptual Framework’s definition of a liability. The Chapter will no longer consider alternatives derived from existing IFRS requirements. As EFRAG FR TEG considered that these requirements were not related to the issue considered and as new requirements should be based on the Conceptual Framework. As a result, there will only be two alternatives (as reflected in slide 16 of Agenda Paper 05-02) instead of the three that were in the draft Discussion Paper presented to EFRAG FR TEG in May. Another amendment will be on the table below paragraph 2.43 that delineates when liabilities are recognised under current requirements. It shall be made clear that it is when a good or service is received (upon which in some but not all cases an asset is received). Apart from these changes, the substance of Chapter 2 will be unchanged.
- 8 In Chapter 3 that addresses whether and when to update the measurement of the acquired asset for the remeasurement of liabilities for variable consideration, additional points on the diverse interpretation of cost will be included by referring to the guidance provided by audit firms. In addition, the six approaches will be consolidated into three alternatives with four of these being re-categorised as criteria of when to update the measurement of the acquired asset (as reflected in slide 21 of Agenda Paper 05-02). Apart from these changes, the substance of Chapter 3 will be unchanged.
- 9 The questions to constituents related to Chapters 2 and 3 will be modified to reflect the changes to these Chapters.
- 10 Question 9 to constituents, related to Chapter 4, will ask whether constituents would agree with not starting a holistic project on variable consideration in the short term.
- 11 The Executive Summary will be modified to reflect the changes to be made to Chapters 2 and 3. The Executive Summary is detailed to the extent that is necessary to convey the essence of the entire Discussion Paper on a standalone basis.