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Revised Structure of Discussion Paper Issues Paper

Objective

- 1 Following the discussions of EFRAG TEG at its July 2021 and September 2021 meetings, the EFRAG Secretariat suggests some changes to the proposed structure of the EFRAG Discussion Paper on variable consideration ('the Discussion Paper').
- 2 The EFRAG Secretariat notes that future discussions of EFRAG TEG may result in changes to the structure of the Discussion Paper.

Current structure of the Discussion Paper

- 3 Currently, the Discussion Paper contains the following seven chapters:
 - (a) Chapter 1: This chapter describes **instances where variable consideration is used** (e.g. when the quality of the good or service is unknown, to stimulate sales and when the purchaser does not trust seller's estimate of the value of an asset), **what the accounting issues with variable considerations are** (e.g. the chapter includes a summary of the discussions of the IFRS Interpretations Committee on variable and contingent consideration) and **the scope and objective of the Discussion Paper**. In relation to the scope, the Discussion Paper does not discuss how to determine what is transferred in a transaction involving variable consideration. In other words, the Discussion Paper only considers issues that arise when the goods and services (to be) received have been specified.
 - (b) Chapter 2: This chapter deals with determining the **unit of account**. It describes why determining the unit of account is important, considers how current IFRS guidance implicitly (or explicitly) considers the unit of account. It then considers users' information needs in relation to selecting the unit of account for variable consideration and describes different alternatives to consider the unit of account.
 - (c) Chapter 3: This chapter considers **when a liability for variable consideration should be recognised**. It does so by first considering when the definition of a liability is met and then whether an item that would meet the definition of a liability should be recognised. It describes the differences across current guidance and, when possible, reasons for the different requirements. The chapter considers the definition of a liability in order to provide a suggestion for approaches to recognise a liability for variable consideration based on different recognition thresholds.
 - (d) Chapter 4: This chapter considers the **measurement of a liability for variable consideration**. The chapter lists the various different measurement requirements across current IFRS Standards for liabilities for variable

consideration (also variable consideration that does not depend on the purchaser's future actions). The chapter then discusses the guidance on measurement included in the Conceptual Framework and lists different alternatives on how to measure liabilities related to variable consideration (these alternatives consider whether the current status should be kept so that liabilities for variable consideration would be measured differently depending on the IFRS Standard they would be covered by, or there should be a common framework for how to measure liabilities for variable consideration).

- (e) Chapter 5 considers **whether variable consideration is an element of the cost of an asset**. The chapter considers the different current requirements, users' information needs and presents accounting alternatives on this issue. In this respect the chapter notes that to the extent that variable consideration is included in the cost of the acquired asset, two general approaches exist. Under the first approach, the measurement of the variable consideration component would be done independently from the measurement of the related liability. EFRAG TEG has previously recommended that this alternative should be briefly mentioned in the Discussion Paper, but only shortly, as it would result in the recognition of a day-one gain or loss. The second approach is that the measurement of the variable consideration component would reflect the measurement of the liability. If this is done, the measurement of an asset would then depend on the type of liability assumed in exchange for the asset acquired, as variable consideration is accounted for differently in existing IFRS Standards (as considered in Chapter 4).
- (f) Chapter 6: This chapter considers **whether/how changes in the estimate of variable consideration should be reflected in the measurement of the acquired asset** to the extent this is measured at cost. It considers the current guidance, the Conceptual Framework and provides alternative approaches.
- (g) Chapter 7: This chapter considers how to account for **changes in the value of the consideration to be provided**. The chapter was originally included as some EFRAG TEG members thought the Discussion Paper was too restrictive in what it considers to be variable consideration. Some EFRAG TEG members, for example, considered that payment in a currency that would not be the functional currency of purchaser should also be considered to be variable consideration from the perspective of the purchaser. The chapter considers differences in current guidance on how the liability is measured and whether changes in the measurement of the liability are reflected in the measurement of the acquired asset. It then considers guidance in the Conceptual Framework and lists different alternatives to how to account for changes in the value of the consideration to be provided.

Suggested revised structure of the Discussion Paper

- 4 Based on the discussions of EFRAG TEG, the EFRAG Secretariat suggests amending the content and structure of the chapters of the Discussion Paper. The suggested revised structure of the Discussion Paper would accordingly be as follows:
 - (a) Chapter 1: Similar to the current DP structure, the chapter will shortly describe **reasons for using variable consideration, the scope** (including the definition of variable consideration) **and objective of the Discussion Paper and the accounting issues with variable considerations**:
 - (i) Divergence in practice relating to when to recognise a liability for variable consideration when the variability depends on the purchasers' future actions. Chapter 1 will include a description of the issue, including a description of what the problems with the current IFRS guidance are, with an example or two.

- (ii) Divergence in practice relating to how changes in estimates related to variable consideration are reflected in the cost of an asset. Chapter 1 will include a description of what the problems with the current IFRS literature are with an example or two.
- (iii) (If TEG would decide on this at a future meeting: Differences in guidance on the recognition and measurement of liabilities to pay variable consideration. Chapter 1 will include a description of why differences in guidance could be an issue.)
- (iv) (If TEG would decide on this at a future meeting: Differences in guidance on how to account for value changes of consideration (e.g. if you have to pay 1 kilo of gold, how you should account for the changes in the price (in your functional currency) of 1 kilo of gold). Chapter 1 will include a description of why differences in guidance could be an issue.)

Chapter 1 will also shortly mention the choice of unit of account used in the Discussion paper (any variable component of a consideration will be considered as a separate unit of account for purposes of recognition and measurement). The reasons for the decision will be included in an appendix.

- (b) Chapter 2: Similar to the current DP structure, it is suggested to consider when a purchaser should recognise a liability for variable consideration before considering how the purchaser should reflect the variable consideration in the measurement at cost of the asset acquired. Chapter 2 will accordingly consider **when to recognise a liability for variable consideration when the variability depends on the purchasers' future actions**. It will first 'map' the relevant current IFRS guidance. A detailed overview of current IFRS guidance will be included in an appendix. The chapter will then describe the guidance in the Conceptual Framework and how this can be interpreted in different ways. Again, a more detail discussion will be included in an appendix. The chapter will then list different possible approaches to deal with the problems of the current and listing the benefits and disadvantages of these approaches. The different possible approaches will be identified based on current guidance and suggestions of EFRAG TEG members.
- (c) Chapter 3: Chapter 3 will address the divergence in practice relating on how changes in **estimates related to variable consideration are reflected in the measurement at cost of an asset** (initially and subsequently). The chapter will first 'map' the relevant current IFRS guidance. A detailed overview of current IFRS guidance will be included in an appendix. Next, the chapter will shortly discuss the definition of cost in current IFRS Standards and the Conceptual Framework and how this guidance can be interpreted in different ways. A more detailed discussion will be included in an appendix. The chapter will then list different possible approaches to deal with the problems of the current and listing the benefits and disadvantages of these approaches. The different possible approaches will be identified based on current guidance and suggestions of EFRAG TEG members.
- (d) Chapter 4: Chapter 4 will only be included if EFRAG TEG would decide on this at a future meeting. The chapter will discuss the **different guidance on recognition and measurement of a liability for variable consideration**, and how this can affect the measurement of an acquired asset. The chapter will first 'map' the relevant current IFRS guidance. A detailed overview of current IFRS guidance will be included in an appendix. Next, the chapter will shortly discuss relevant guidance in the Conceptual Framework. A more detailed discussion will be included in an appendix. The chapter will then discuss reasons for differences in current IFRS guidance and whether these differences are warranted or not. To the extent the differences are not

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warranted, the Discussion Paper would list different possible approaches to deal with the problems.

- (e) Chapter 5: The new Chapter 5 on value changes of considerations will replace the Chapter 7 under the current DP structure. As it has been questioned whether a chapter on **value changes of consideration** should still be included, EFRAG TEG will have to discuss this at a forthcoming meeting. If the Chapter will be included, it would 'map' current guidance, discuss reasons for differences and list different possible approaches to deal with identified issues.
- 5 Under the revised structure, the purpose of the Discussion Paper would then be described as follows:
- (a) In the case Chapter 4 will not be included: identify areas where there is currently a lack of (clear) guidance on accounting for variable consideration and discuss possible solutions for these.
 - (b) In the case Chapter 4 will be included: identify areas where there is currently either a lack of (clear) guidance or different guidance on accounting for variable consideration and discuss possible approaches to deal with these issues to the extent they are unwarranted.
- 6 The EFRAG Secretariat suggests that EFRAG TEG at a future meeting will discuss whether the Discussion Paper should include a chapter on value changes and a discussion on risk-sharing arrangements.

Questions for EFRAG TEG

- 7 Does EFRAG TEG have any comments to the suggested revised structure of the Discussion Paper?