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Risk-sharing and collaborative arrangements

Issues Paper

(Updated version)

Objective

- 1 The objective of this paper is to ask EFRAG TEG whether EFRAG's Discussion Paper on variable consideration (Discussion Paper) should include a discussion on risk-sharing and collaborative arrangements, and if so, how this discussion should be included. The current scope of the Discussion Paper does not consider risk-sharing and collaborative arrangements in the manner the IASB considers these arrangements (see below).
- 2 As further explained below, the IASB may further consider risk-sharing and collaborative arrangements either in relation to a project on variable consideration or in relation to a project resulting from the Post-implementation Review of IFRS 11 *Joint Arrangements*.
- 3 In the view of the EFRAG Secretariat, arguments in favour and against considering risk-sharing and collaborative arrangements could be:
 - (a) An argument in favour of considering risk-sharing and collaborative arrangements as part of EFRAG's project on variable consideration would be that it would allow EFRAG to provide proactive input to the IASB, should the IASB consider these issues in relation to a project on variable consideration or in relation to a project resulting from the Post-implementation Review of IFRS 11. It could also be argued that if the seller is exposed to the subsequent performance of the asset sold, it has to be considered when assessing the economic substance of the transaction, as a retained or continuing interest.
 - (b) An argument against considering risk-sharing and collaborative arrangements would be that such a discussion would increase the size (and complexity) of the Discussion Paper. It would also result in more time being needed to finalise the Discussion Paper.

Background

- 4 On the website of the IASB¹, the objective of the IASB research pipeline project on variable and contingent consideration is described as:

The objective of the project is to assess whether the Board should develop a proposal on how to account for variable and contingent payments for asset purchases outside a business combination. Once the Board has considered this topic, there may be a need for some follow up research on risk-sharing and collaborative arrangements.

¹ <https://www.ifrs.org/projects/pipeline-projects/>

- 5 On the IASB website², the relationship between risk sharing / collaborative arrangements and variable consideration is explained as follows:

The reason for the variable or contingent payment is sometimes to share risks and benefits between the purchaser of an asset and the vendor. The topic of risk sharing/ collaborative arrangements is broader³, as it is focused more on activities than on a purchase transaction. Resolving the accounting issues around variable or contingent payments may relieve concerns that are common to both topics. However, once the Board has considered variable or contingent payments, there may be a need for some follow up research on risk-sharing and collaborative arrangements.

Approach to variable consideration taken in the Discussion Paper (so far)

- 6 At its November 2019 meeting, EFRAG TEG considered a draft working paper of the FRC staff on variable consideration. Among other examples, this draft working paper considered the sale of a racehorse, whereby the contract required a fixed payment plus additional consideration of 60% of the prize money if the horse would win the next Derby.
- 7 EFRAG TEG members expressed differing views on the substance of this contract. Indeed, some EFRAG TEG members did not see the contract as a transfer of a racehorse.
- 8 In order not to repeat the discussions that would follow from the FRC paper in EFRAG's Discussion Paper on variable consideration, it was tentatively decided to exclude discussions on what is transferred in an arrangement (and hence whether the consideration is variable or not). It was thus tentatively decided that the Discussion Paper should consider the accounting issues arising after it would be determined that an agreement would be a transfer of a good or service in exchange for variable consideration (and not something else – for example the purchase of an interest in an asset for a fixed consideration (see Agenda Paper 05-04 for this session) or the purchase of an option (as discussed at the October 2021 EFRAG TEG meeting). The current scope of the Discussion Paper accordingly excludes an analysis on when a risk-sharing or collaborative arrangement exists and how to account for such activities as described in paragraph 5 above.

Potential future guidance on risk-sharing and collaborative arrangements

- 9 Although variable consideration can be discussed without having to consider how to account for risk-sharing and collaborative arrangements, it followed from the IASB's Post Implementation Review of IFRS 11 that some of the IASB's stakeholders consider that IFRS Standards do not provide accounting requirements for arrangements in which two or more parties manage activities together but are not a joint arrangement as defined in IFRS 11 (collaborative arrangements). The collaborative arrangements are outside the scope of IFRS 11 because the activities of the arrangements are not jointly controlled thereby activities could be directed by different combinations of parties. Sometimes joint control does not exist for a

² <https://www.ifrs.org/projects/work-plan/variable-and-contingent-consideration/#about>

³ In accordance with the description of risk-sharing and collaborative arrangements included in paragraph 3 above, current IFRS guidance does not assume that variable consideration is evidence of risk-sharing and collaborative activities, although it can be an approach to risk-sharing. In IFRS 3 Business Combinations, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases; variable consideration only affects either the recognition and measurement of a liability to transfer a consideration in exchange for a business or a right-of-use asset; or the amount of revenue that can be recognised from the sale of a good or service. Under these standards, variable consideration would thus not mean that an asset, liability or equity component related to a risk-sharing or collaborative arrangement is recognised.

collaborative arrangement because one party controls the arrangement and other parties to the arrangement have rights to the assets and obligations to the liabilities⁴.

- 10 According to the feedback received⁵ in relation to the post implementation review (IFRS 11), such arrangements are widespread in the following industries:
- (a) extractive;
 - (b) real estate;
 - (c) pharmaceutical;
 - (d) entertainment; and
 - (e) telecommunication.
- 11 At its meeting in October 2021, the IASB decided that in developing its work plan for 2022 to 2026, as part of the Third Agenda Consultation, it would consider further as a high priority topic: collaborative arrangements outside the scope of IFRS 11⁶.
- 12 To the extent EFRAG TEG would want to provide proactive input to this possible project or any additional follow up research related to an IASB project on variable and contingent consideration (see paragraph 4 above), EFRAG TEG could thus decide to also consider risk-sharing/collaborative arrangements as part of its proactive project on variable consideration.

Questions for EFRAG TEG

- 13 Does EFRAG TEG consider that risk-sharing/collaborative arrangements should be considered as part of the EFRAG proactive research project on variable consideration?
- 14 If so, does EFRAG TEG consider that risk-sharing/collaborative arrangements should be considered in the same discussion paper as (other) issues with variable consideration or in a separate document?

⁴ See IASB Staff Agenda Paper 7B for the October 2021 IASB meeting:

<https://www.ifrs.org/content/dam/ifrs/meetings/2021/october/iasb/ap7b-background-analysis-of-feedback-ifrs-11-ifrs-12-and-other-pir-ifrs-10-11-12.pdf>

⁵ See IASB Staff Agenda Paper 7B for the October 2021 IASB meeting:

<https://www.ifrs.org/content/dam/ifrs/meetings/2021/october/iasb/ap7b-background-analysis-of-feedback-ifrs-11-ifrs-12-and-other-pir-ifrs-10-11-12.pdf>

⁶ See IASB staff Agenda Paper 7 for the November 2021 IASB meeting:

<https://www.ifrs.org/content/dam/ifrs/meetings/2021/november/iasb/ap7-respondering-to-the-feedback-pir-ifrs-10-11-12.pdf>