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Value changes of consideration Issues Paper

Objective

- 1 The objective of this paper is to ask EFRAG FR TEG whether an additional chapter should be included in the Discussion Paper on how to account for changes in the value of consideration.

Value changes of consideration

- 2 This paper considers that a change in the value of consideration can occur when a purchaser will have to pay for a good or service for which the purchaser has acquired control and the payment is not in the functional currency of the purchaser. In these cases, the measurement of the payment in the functional currency of the purchaser can fluctuate between the time the purchaser obtains control of the acquired good or service and the time of paying the consideration.
- 3 For example, if the purchaser has to pay one kilo of gold in exchange for a good or service, the price, in the purchaser's functional currency, of one kilo of gold can fluctuate until the time the purchaser is transferring the gold, so for example, it is CU 1 000 when the purchaser receives the good or service agreed and CU 1 200 at the following reporting date (before the purchaser has transferred the gold).
- 4 Value changes of consideration can take place both when the consideration is variable according to the definition used in the Discussion Paper and when the consideration is fixed. For example, if the purchaser will have to deliver a variable number of kilos of gold depending on the performance of the asset received, the consideration is variable. At the same time, the price in the functional currency of the purchaser of each kilo of gold could fluctuate and hence cause a change in the consideration measured in the functional currency for each kilo of gold that has to be transferred. The value of the consideration can, on the other hand, also be fixed while the consideration is variable. This would be the case if the variable number of kilos of gold, the purchaser would have to transfer would equal a fixed amount in the purchaser's functional currency.
- 5 Although value changes of consideration can take place for variable consideration, the Discussion Paper does not consider value changes separately when the consideration is variable. That is, when consideration is deemed variable according to the definition in the Discussion Paper, the effects of changes in variable consideration include both:
 - (a) changes in the number of assets the purchaser will have to transfer;
 - (b) value changes, measured in the functional currency of the purchaser, of each asset the purchaser will have to transfer.

Background

- 6 The Discussion Paper considers that a consideration is variable when the purchaser of a good or service may have to transfer additional assets in exchange for the goods or services to the seller.
- 7 When EFRAG FR TEG considered how to define variable consideration for the purpose of the Discussion Paper, differing views were expressed on the issue. Some EFRAG FR TEG members wanted a broader definition than the one used in the Discussion Paper. The broader definition would consider consideration to be variable in all cases where the consideration would be paid after control of the corresponding good or service has been transferred and the consideration to be paid would not a fixed amount in the functional currency of the purchaser.
- 8 A practical implication of the different definitions would, for example, be that while the definition chosen for the Discussion Paper would not consider consideration to be variable if an entity would have to pay a fixed amount in a currency which is not its functional currency, this would be the case under the broader definition. Similarly, if the purchaser would have to transfer a fixed quantity of something (for example, gold, tomatoes, hours of internet access or bitcoins) this would be considered to be variable consideration under the broader definition (but not under the current definition).
- 9 Because of the differing views on what should be considered variable consideration, EFRAG FR TEG decided to define variable consideration using the narrow definition included in the Discussion Paper and to include an additional chapter on changes in the value of consideration. This additional chapter would then consider how an entity, for example, should account for changes in foreign currency exchange rates when the entity has an obligation denominated in a foreign currency or the changes in the price of gold, if the entity would have to transfer 1 kilo of gold in exchange for a good or service received.
- 10 Since then, EFRAG FR TEG has modified the scope of the Discussion Paper from discussing a holistic approach to account for variable consideration to focus on current accounting issues related to variable consideration. It may therefore be less useful to include a chapter on changes in the value of consideration in the revised Discussion Paper.

Content of a chapter on value changes of consideration

- 11 Should EFRAG FR TEG decide to include a chapter on value changes of consideration in the Discussion Paper, the EFRAG Secretariat suggests that the main issue to be considered in the chapter should be whether changes in the value of consideration should be accounted for similar to variable consideration under a holistic approach for variable consideration.
- 12 The main argument for accounting for changes in the value of consideration similar to variable consideration seems to be that if changes in the value of consideration would be accounted for differently from variable consideration it would result in what some would consider to be economically similar transactions being accounted for differently. Consider, for example:
 - (a) A transaction under which a purchaser with Euro as the functional currency, would have to pay USD 100.
 - (b) A transaction under which a purchaser with Euro as the functional currency, would have to pay an amount in Euro corresponding to USD 100.
- 13 The transaction mentioned in (b) above would be considered to be variable consideration according to the definition used in the Discussion Paper, whereas this would not be the case for the transaction mentioned in (a).

- 14 Some would consider the two transactions to be economically similar. If this is the case, it would not result in useful information if they would be accounted for differently because there would be different requirements for accounting for variable consideration and for changes in the value of consideration. For example, the effects of changes in foreign exchange rates are generally included in profit or loss according to the requirements in IAS 21. However, it may be considered that in some circumstances, changes in estimates of variable consideration should be reflected in the measurement of the acquired asset.
- 15 A chapter on value changes of consideration could therefore:

- (a) List additional relevant requirements for value changes of consideration. Most of the requirements that would be relevant for changes of the value of consideration would already have been considered in Chapters 2 – 4. An exception would be IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The chapter would therefore summarise the requirements in IAS 21.
- (b) Analyse how application of the relevant approaches considered in other chapters of the Discussion Paper would affect how value changes of consideration should be accounted for – if these changes should be accounted for similarly to variable consideration. In this respect the EFRAG Secretariat would suggest only to be considered whether changes in the measurement of a liability should be reflected in the measurement of an acquired asset (which is measured at cost initially and subsequently) (i.e. the issue considered for variable consideration in Chapter 3 of the Discussion Paper).

It is thus not assessed relevant to consider approaches related to the recognition of a liability. There might, in theory, be circumstances where the recognition of a liability could be considered – for example, if the measurement of the liability would be so uncertain that it would not provide useful information to recognise a liability. Generally, however, it is the assessment of the EFRAG Secretariat that recognition issues related to how to account for value changes of consideration would be less important than whether changes in the measurement of the liability should be reflected in the measurement of the acquired asset.

The EFRAG Secretariat notes that it could be relevant to discuss how to measure a liability to transfer a non-financial asset when the consideration is fixed, as it could be debatable which current IFRS Standard would apply¹. However, this would broaden the scope of the Discussion Paper to include issues not particularly related to variable consideration.

- (c) Discuss advantages and disadvantages of changing requirements for how value changes are accounted for.

Arguments in favour and against including a chapter on value changes of consideration

- 16 In favour of including a chapter on value changes of consideration, the EFRAG Secretariat notes:
- (a) The issue with economically similar transactions not being accounted for similarly (see paragraph 12 above).
- 17 Against including a chapter on value changes, the EFRAG Secretariate notes:

¹ See for example the IFRS Interpretations Committee's discussion on commodity loans ([IFRS Interpretations Committee staff paper 10 for the November 2016 meeting of the IFRS Interpretations Committee](#))

Value changes of consideration - Issues Paper

- (a) It would potentially increase the complexity of the Discussion Paper significantly. For example, it may be necessary to consider how the various approaches would work if the purchaser would/could hedge the value changes, and it may be difficult to avoid discussing how non-financial liabilities should be accounted for under current requirements (see paragraph 15(b) above);
 - (b) It would make the Discussion Paper longer and thus make it less accessible for constituents;
 - (c) From a practical perspective, the most important issue could be how to account for the effects of foreign currency exchange rates, and the EFRAG Secretariat is not aware of any concern related to current requirements on this. Including a chapter on value changes could thus be seen as EFRAG trying to solve a problem that does not exist.
- 18 On balance the EFRAG Secretariat considers that the disadvantages of including a chapter on value changes would outweigh the benefits. The EFRAG Secretariat would thus not recommending including such a chapter.

Question for EFRAG FR TEG

- 19 Does EFRAG FR TEG consider that a chapter on value changes of consideration should be included in the Discussion Paper? Please explain.