FEEDBACK STATEMENT

DISCUSSION PAPER

Accounting for Variable Consideration

From a purchaser's perspective

This report has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review by either the EFRAG FRB or the EFRAG FR Technical Expert Group.

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Introduction

In September 2022, EFRAG issued the Discussion Paper *Accounting for Variable Consideration—From a purchaser's perspective* ('the DP'). EFRAG requested comments by 30 November 2023.

This feedback statement describes the main comments received in response to the DP.

DP objectives

In August 2018, following the input received from constituents in response to the EFRAG *Research Agenda Consultation*, the EFRAG Board approved the addition of a project on variable and contingent consideration to EFRAG's research agenda.

The objective of the project was to consider possible alternative accounting requirements on challenges related to the accounting for variable consideration that could inform the IASB on any future standard-setting activities on, or related to, this topic.

The DP focussed on two issues faced by purchaser entities where divergence in practice exists as conveyed in past IFRS IC discussions and stakeholder feedback. These were:

- when to recognise a liability for variable consideration; and
- whether/when subsequent changes in the estimate of variable consideration should be reflected in the cost of the acquired asset.

The DP presented alternatives for accounting requirements for the two issues, outlined the qualitative characteristics of useful information for each of these alternatives and discussed standard-setting approaches to deal with the issues. In addition, the DP assessed the general requirements for accounting for variable consideration and the advantages and disadvantages of either developing unified principles or undertaking standard-by-standard amendments.

Overview of responses from constituents

As an alternative to submitting a comment letter, EFRAG offered constituents the option of completing an electronic survey, which included the DP's questions.

EFRAG has received 13 comment letters and completed electronic surveys (available on EFRAG's website) from constituents (both are referred to as comment letters in the following). The comment letters' respondents are from within and outside the EU and consist of national standard-setters, a preparer organisation, an accountancy professional organisation, an association of academics, an audit firm and a user organisation (see Appendix for details).

In addition, EFRAG gathered feedback through nine targeted outreach events and stakeholder meetings (see Appendix for details).

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Purpose and use of this feedback statement

This feedback statement has been prepared as a formal record of the responses received. It summarises the messages received from constituents and notes any key themes identified.

This feedback statement should be read in conjunction with the DP, which is available on the EFRAG's website.

Summary of the responses received

Overall feedback received

The overall feedback concurred that there was a gap in the accounting requirements for variable consideration by purchaser entities and that the DP had made a useful contribution in highlighting the arising issues and proposing accounting alternatives. Therefore, the DP can be a basis for the IASB to develop requirements. However, several respondents acknowledged that the topic is not a priority for the IASB to address immediately as a standalone project, given its other priorities. There were suggestions that some of the issues could be considered under current IASB work plan projects (e.g., *Financial Instruments with Characteristics of Equity* and *Equity Method*). EFRAG also notes that, as part of the IASB's project on intangible assets, it would be relevant to clarify what is meant by measurement at cost—including whether, and if so when, cost should subsequently be updated to reflect changes in (estimates of) variable consideration.

Although there were some themes in the responses to several issues considered in the DP, the feedback also revealed diverse views related to the appropriate accounting for variable consideration by purchaser entities. The feedback thus reflects the diverse views on the issues covered by the DP and highlights that the current diversity in practice can only be solved by standard setting.

While there was general support for the scope and content of the DP, some constituents also opined that it should have (a) included the measurement of the liability (i.e., considering alternative measures of financial liabilities related to variable consideration, including basing the measurement of the liability on the fair value of the asset received); (b) addressed disclosures; and (c) considered the accounting requirements premised on identifying the substance of a transaction (i.e., should have addressed step and multiple-element assets acquisitions). A respondent expressed concern about the definition of variable consideration in the DP (i.e., it could lead to arbitrage).

When to recognise a liability for variable consideration

The DP identified two alternatives for requirements on when to recognise a financial liability for variable consideration that depends on the purchaser's future actions under IAS 32 *Financial Instruments: Presentation*/IFRS 9 *Financial Instruments*.

a) Alternative 1: Recognising a liability when the purchaser obtains control of the asset acquired unless the purchaser would have a practical ability to avoid taking the action that would trigger the variable consideration.

b) Alternative 2: Recognising a liability when the purchaser performs the actions that trigger the variable consideration.

Some respondents commented explicitly on the assessments included in the DP of these alternatives. Several other respondents generally agreed with the assessments while one respondent did not find the assessments helpful.

Some respondents identified additional alternatives for when to recognise a liability for variable consideration. Two of these additional proposals, that were mentioned by several respondents, were:

- to recognise a liability when the purchaser obtains control of the asset acquired (i.e., Alternative 1 as included in the DP without considering whether the purchaser has a practical ability to avoid taking the action that would trigger the variable consideration); and
- to recognise a liability when the purchaser obtains control of the asset acquired and it is probable that the action triggering the variable consideration will happen.

The majority of respondents expressing a preference for either Alternative 1 or Alternative 2 included in the DP supported Alternative 1. The arguments most frequently provided in favour of Alternative 1 were the following.

- The relevant past event is when the purchaser obtains control of the transferred asset (and Alternative 1 would therefore be consistent with the definition of a liability in the Conceptual Framework).
- When the purchaser obtains control of the asset, the contract becomes non-executory and, at this point, the liability for variable consideration should be recognised.
- Alternative 1 would be consistent with IAS 32.25 as paying the variable consideration would be out of the purchaser's control (when the purchaser would not have the practical ability to avoid taking the action that would trigger the variable consideration).

The arguments most frequently provided in favour of Alternative 2 were the following.

- It would be easier/less costly to apply (and audit) than Alternative 1 (as Alternative 1 would require estimates of variable consideration).
- Disclosures, e.g., on the range of amounts of variable consideration, would/could be more useful as any estimation would most likely be wrong.
- It would result in reliable information.

How to assess that an entity has no practical ability to avoid taking an action

The DP suggested five alternative criteria for assessing when a purchaser would have no practical ability to avoid taking an action which would trigger variable consideration.

Respondents, expressing a view on this issue, generally considered the alternative criteria as valid. Some respondents provided additional criteria.

Only a few respondents presented a preference for one of the criteria. However, the criterion that received the most support was to consider that a purchaser would have no practical ability to avoid taking an action when avoiding taking the action would have a significant unfavourable impact on the entity.

Another criterion suggested in the DP was that a purchaser would have no practical ability to avoid taking an action when avoiding taking the action would result in using the acquired asset in a manner that would not reflect the economic purpose of acquiring the asset. Several respondents did not prefer this alternative as they considered that it:

- would not reflect that using an asset for a different purpose is not necessarily bad for an entity; and
- (as a consequence) would not reflect when an entity does not have a practical ability to avoid something.

An argument in favour of the alternative was, however, that it was related to the acquired asset. Applying a criterion that would not be related to the contract could result in the same contract being accounted for differently by different entities.

Interpretations of the definition of cost

The DP asked how the definition of 'cost' included in IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 40 *Investment Property* should be interpreted in relation to whether the cost should be updated to reflect changes in (the estimate of) variable consideration. Respondents providing a view on this were equally split on whether cost, as currently defined, should be updated or not. Those who assessed that cost should be updated referred, among other things, to IFRC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. Those who did not think it should be updated considered, among other things, that the reference in the definition of cost to 'at the time of acquisition or construction' applies to both the cash or cash equivalent paid and the fair value of other consideration.

Respondents providing a view on the question were also split on how cost should be defined and whether it would be useful to have the same definition of cost in all standards. Arguments for not having the same definition were that it might not result in the most relevant information and that there could be cost/benefit reasons for sometimes updating cost and sometimes not.

Possible requirements for when measurement at cost should be updated to reflect changes in estimates of variable consideration

The DP considered possible alternative requirements for whether/when the cost of an asset should be updated in situations where the asset is acquired in exchange for variable consideration in cash or another financial instrument.

In addition to the possible alternative requirements, one respondent suggested that the requirements in IFRS 16 *Leases* should have been considered.

The DP included assessments of the advantages and disadvantages of various alternative requirements. Most respondents commenting on these assessments agreed with them.

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Comment letter respondents and outreach participants expressed multiple differing views on the alternatives presented in the DP of whether/when measurement at cost should be updated to reflect changes (in estimates of) variable consideration. Most respondents considered that the cost of an asset should sometimes be updated to reflect changes in (the estimate of) variable consideration. The related criterion that received the most support was to update the cost of the asset when the variable payments are associated with future economic benefits to be derived from the asset.

One of the arguments in support of this alternative was that it would result in reflecting changes in variable consideration in the statement of financial position in the period(s) in which the benefits would be affected. Arguments against this alternative were that it would be too subjective to assess whether variable consideration is linked to future economic benefits derived from the asset and that it would be more complex than either always requiring or prohibiting changes in (estimates of) variable consideration to be reflected in the cost of an asset.

General requirements on accounting for variable consideration

From the comment letter and outreach feedback, mixed views were expressed on the approach that ought to be applied for developing variable consideration IFRS accounting requirements. On balance, the majority of the respondents favoured standard-by-standard amendments over the development of a unified set of principles. The former approach would be pragmatic (e.g., would focus on the most impacted IFRS Accounting Standards such as IAS 16 and IAS 38), and it would ensure that different transactions would be treated differently.

In addition, a view was expressed that a unified set of principles could be framed as principles that can be applied differently depending on the specific characteristics of transactions or used together with the standard-by-standard approach (i.e., a standard-by-standard review to address the existing issues using an agreed conceptual basis). In other words, these approaches are not mutually exclusive.

Most comment letter respondents explicitly agreed or did not disagree with the advantages and disadvantages presented in the DP for either developing a unified set of principles to account for variable consideration or undertaking standard-by-standard amendments.

Applying an IFRS 15 mirroring approach

The DP asked constituents whether an approach mirroring the requirements in IFRS 15 *Revenue from Contracts with Customers* for accounting for variable consideration (i.e., IFRS 15 mirroring approach) could be useful (with the exception of the constraint to only include in the transaction price the amount of variable consideration that is highly probably not to result in a significant reversal in the amount of cumulative revenue recognised).

A majority of the respondents disagreed with the IFRS 15 mirroring approach. The reasons why included that it would require further discussions to avoid any unintended consequences and that there is an asymmetry between sellers and buyers in terms of perspectives. Furthermore, under current requirements, it may lead to inconsistencies with the current definition of liabilities (e.g., when the future outflow is probable, but the purchaser retains the practical ability to avoid it). It might also only work for initial recognition (i.e., the acquisition date of an asset) and not for subsequent measurement.

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Conversely, a few respondents supported the IFRS 15 mirroring approach because it would provide consistent and pragmatic guidance to estimate the costs of the variable consideration in a normal purchase of PPE and intangible assets under the scope of IAS 16 and IAS 38.

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Detailed Analysis of responses

Question 1 – When to recognise a liability for variable consideration

Chapter 2 of the DP explored two alternatives for requirements on when to recognise a financial liability for variable consideration that depends on the purchaser's future actions under IAS 32/IFRS 9:

a) *Alternative 1: Recognising a liability when the purchaser obtains control of the asset acquired unless the purchaser would have a practical ability to avoid taking the action that would trigger the variable consideration. (The DP included suggested criteria on when a purchaser entity would not have the practical ability to avoid taking the action(s) that would trigger the variable consideration (see Question 2 below).)*

b) *Alternative 2: Recognising a liability when the purchaser performs the actions that trigger the variable consideration.*

The Chapter also included assessments of qualitative characteristics of useful information for each of the two alternatives. The DP asked whether constituents agreed with these assessments.

Constituents were asked whether they thought that other alternatives for requirements for liabilities for variable consideration than those listed should be considered.

Constituents were also asked when they thought a purchaser should recognise a financial liability covered by IFRS 9 for variable consideration that would depend on the purchaser's future actions.

Finally, constituents were asked whether they were aware of any issues relating to the measurement of a recognised financial liability for variable consideration.

Assessments of the alternatives

Three comment letter respondents provided views on the assessment of the two alternatives for when to recognise a liability for variable consideration presented in the DP.

Two respondents either agreed or conditionally agreed with the DP's assessments. One respondent, who conditionally agreed, noted the DP's discussion on whether the alternatives would result in counterintuitive information and opined that the best match between income and expenses would be achieved if the variable consideration is included in the cost of the asset at initial recognition. The respondent also noted that, in relation to the assessment under faithful representation on whether the alternatives would result in a liability being recognised that the purchaser has no practical ability to avoid, a clear definition of the 'unavoidable' criterion would be key.

One respondent did not find the DP's assessment helpful due to not considering the enhancing qualitative characteristics of the Conceptual Framework (comparability, verifiability, timeliness and understandability). This respondent considered that the assessment could vary depending on the example being considered.

One comment letter respondent stated that no additional alternatives had been identified.

Alternative criteria for recognising the liability

The following were the additional alternatives for recognising a liability proposed by respondents and participants (Respondent(s)/participant(s) notation: Ac: Academic; Au: auditor or professional body of accountants; P: preparer/organisation for preparers; S: standard-setter and U: user. A notation in italics indicates that although the respondent/participant thought the alternative should be considered in the DP, the respondent/participant did express support for introducing the particular alternative when setting requirements in standards).

- Recognise a liability when the purchaser obtains control of the asset acquired. Ac(1); S(2); *S*(3); S(4); P (5)
- Recognise a liability when the purchaser obtains control of the asset acquired and it is probable that the action triggering the variable consideration will happen[6]. *S*; P
- Recognise a liability when the purchaser obtains control of the asset acquired unless the variable consideration is sales- or usage-based (similar to IFRS 15 for the seller). Au
- Recognise a liability when the purchaser obtains control of the asset acquired; it is probable that the action triggering the variable consideration will happen and the variable payment can be estimated reliably (6). Ac
- Recognise a liability when the purchaser obtains control of the asset acquired and it is reasonably certain that the variable consideration will be triggered. U
- Recognise a liability when the payment is unavoidable. Au (7)

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[1] The respondent did not support this alternative.

[2] The respondent considered this to be the best approach if an IFRS 16 approach could not be used (the EFRAG Secretariat has considered in relation to the liability recognition issue that an IFRS 16 approach corresponds to Alternative 2).

[3] The argument provided was that some consider that variable consideration within purchase contracts represents a real option. This means that regardless of whether the entity has the ability to avoid taking an action, this real option is a component of fair value and is therefore considered to be part of the cost at acquisition.

[4] The argument provided was that the liability should be measured at fair value (as the asset should initially be measured at its fair value), which would mean that the variable consideration should be taken into account.

[5] The argument provided was that the measurement, not the recognition, of a liability should reflect the likelihood that the action resulting in variable consideration would be triggered.

[6] A counterargument presented for this alternative was that the probability of variable consideration being triggered should be reflected in the measurement.

[7] The argument provided was that unless it is reasonably certain that the variable consideration will be triggered, the fixed consideration represents the value of the asset transferred.

- Recognising a liability when the purchaser obtains control of the asset acquired and the asset is able to operate in the manner intended by the management unless the purchaser would have a practical ability to avoid taking the action that would trigger the variable consideration. [S]

When a liability for variable consideration should be recognised

Eight comment letter respondents and 10 participants at outreach events provided a preference for either Alternative 1 or Alternative 2 included in the DP for when a liability for variable consideration should be recognised. The views are summarised in the table below.

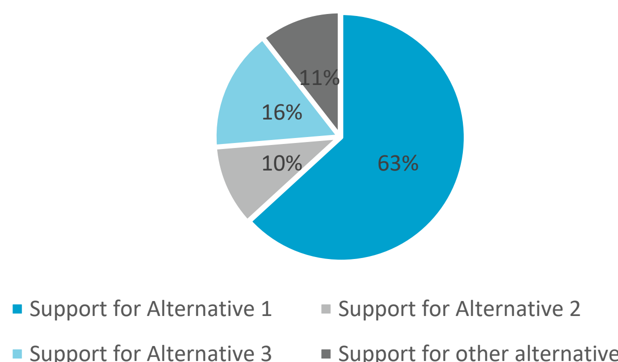
	Support for Alternative 1	**Support for Alternative 2**
Comment letter respondents	7 [P; S; S; S; U; S; Au(1)]	1 [S]
Participants at outreach events (speakers)	5 [Ac; S; S; Au; S]	5 [Au; S; P; Ac; P]

Comment letter respondent or outreach participant notation: Ac: Academic; Au: auditor or professional body of accountants; P: preparer/organisation for preparers; S: standard-setter and U: user.

1: The respondent supported Alternative 1; however, the respondent considered that the same exceptions as under IFRS 15 for sales-based or usage-based royalties (or the sale/purchase of intangible and tangible assets generally) should be included.

During an outreach event involving a panel of speakers, the results of audience polling on when a liability should be recognised are depicted in the chart below.

Liability recognition for variable consideration



Alternative 3 in the poll was that a liability/several liabilities (with a distinction between the different types of liabilities) should be recognised when the purchaser obtains control of the asset acquired. The total amount of these liabilities should mirror the fair value of the asset acquired.

Four comment letter respondents did not express support for a particular alternative but provided some arguments in favour and/or against each of the alternatives.

One respondent thought the preferred alternative would depend on whether 'the asset' being considered would be the underlying property (e.g., a machine) or whether there is a restricted right-of-use asset over the property and an option (or commitment) to 'acquire more' of that property. Alternative 1 would be preferred for the first case, whereas Alternative 2 would be preferred for the second case. That said, in reaction to this view, the EFRAG Secretariat notes that the DP was premised on the acquisition of a single asset. In other words, the DP did not consider situations where an entity is acquiring multiple assets – each for a fixed amount.

Two participants at outreach events noted that when a liability for variable consideration should be recognised would depend on the facts and circumstances.

A participant at an outreach event noted that current practice among football clubs was not to recognise a liability.

The table below summarises the arguments provided in favour and against the two alternatives.

Arguments on two alternatives for requirements on when to recognise a financial liability for variable consideration that depends on the purchaser's future actions	
Alternative 1 (Recognise liability when the purchaser obtains control of the acquired asset)	**Alternative 2 (Recognise liability when the purchaser performs the action that triggers variable consideration)**
Arguments in favour	**Arguments in favour**
• The relevant past event is when the purchaser obtains control of the transferred asset (and Alternative 1 would therefore be consistent with the definition of a liability in the Conceptual Framework). [S; S; S; S] • When the purchaser obtains control of the asset, the contract becomes non-executory and at this point the liability for variable consideration should be recognised. [Ac; Au; S; U] • It is consistent with IAS 32.25 as paying the variable consideration would be out of the purchaser's control (when the purchaser would not have the practical ability to avoid taking the action that would trigger the variable consideration). [S; S; Au] • It is consistent with the approach to contingent consideration in IFRS 3 *Business Combinations* (and it would be inconsistent to treat a business combination and an asset deal differently in relation to variable consideration). [P; A; S]	• It would be easier and less costly to apply (and audit) than Alternative 1 (as Alternative 1 would require estimates of variable consideration). [S; S; S; Ac; Au; AU] • Disclosures, e.g., on the range of amounts resulting from variable consideration would/could be more useful as any estimation would most likely be wrong. [Ac; S; Au; P] • It would result in reliable information. [S; Au; Au] • It would be similar to the requirements in IFRS 16 where the variability does not depend on an index or rate. [S] • It would be most consistent with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. [P] • When variable consideration is linked to future performance or use of an asset, and the variable consideration payable reflects an outflow of resources embodying economic benefits that relate to that period, recognising the variable

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- It would mirror the requirements in IFRS 15 (if the same exceptions are also introduced as in IFRS 15). (It results in a more faithful depiction of the underlying economics that the seller and purchaser accounts for variable consideration similarly.) [Au; S]
- It is probable that the variable payment will be triggered (otherwise the seller would not accept that that part of the consideration would be variable). [S]
- It would be the approach that would correspond to a measurement of the acquired asset at fair value when control of that asset is transferred. [S]
- It would be consistent with IFRS 16 to the extent the variable payments would in substance be fixed payments. [Ac]
- It would best reflect the liabilities to which the purchaser is exposed. [S]
- Under Alternative 2 additional disclosures should be provided and preparers do not want to disclose information that can compromise their future actions. [Au]
- It would result in similar accounting for variable consideration regardless of whether such consideration depends on the purchaser's future action and negates the need for a distinction in requirements, which could be difficult in practice. [Au]

consideration in that period will result in relevant information in the income statement. [S]

- In many situations, it would not impact equity at initial recognition of the related asset because the opposite entry of a recognised liability at initial recognition would include the amount as part of the cost of the acquired asset. [S]

Arguments against

- It could result in earnings management. [Ac; Au]
- It introduces risks for auditors and is costly for preparers as evidence of 'no practical ability to avoid' would be difficult to assess. It is easier to assess when something is legally enforceable. [Au; Au]
- Payments that depend on the purchaser's future actions (the purchase is not contractually obliged to perform) are avoidable and should therefore not be recognised until the actions have occurred. Assessments of the economics of a

Arguments against

- It would result in the cost of an acquired asset being measured at a wrong amount (e.g., nil). [P]
- IFRS 16 requirements should not be used as a benchmark as the guidance was internally inconsistent. Measurement uncertainty could be considered the reason for not recognising a liability for variable consideration in a lease arrangement. [Ac; S]
- It would not result in a faithful reflection of the value of the obligation. [S]

transaction should not override the rights and obligations arising from the contract. [P; P]

- It would not be consistent with the reference to ‘incurred cost’ in the description of historical cost in the Conceptual Framework. [S]
- It would not be operational if economic compulsion were the crucial criterion for when an entity would not have the practical ability to avoid taking an action, as there would be too much room for judgement. [S]
- At the time of acquisition, it could be difficult for the purchaser to assess whether the future event triggering the variable consideration would occur. [S]
- Existing accounting standards do not currently place any weight on whether or not cash flows can be avoided (e.g., IFRS 2 *Share-based Payment*). [Au]
- The benefits of applying the approach would not outweigh the costs. [Au]
- Disclosures of the different variables that affect the likelihood and timing of recognition of a liability, the range of different potential outcomes, and how sensitive the obligation to these variables is would be critical for transparency. [Au; Ac] The view was, however, expressed that these same disclosures would also need to be provided under Alternative 1. [P]
- The costs of Alternative 2 would be about the same as for Alternative 1. For internal purposes, an entity’s management needs to make some assessments already regarding the probability of future cash flows. [Au]

Comment letter respondent or outreach participant notation: Ac: Academic; Au: auditor or professional body of accountants; P: preparer/organisation for preparers; S: standard-setter and U: user. Notation in italics indicates that the respondent did not support the particular alternative. An underlined notation indicates that the respondent did not express a (clear) preference for any of the two alternatives.

Measurement issues

A respondent considered the DP to be incomplete as it did not consider the measurement of the liability for variable consideration. However, this respondent did not describe the issues related to the measurement of such liabilities.

Two comment letter respondents and a participant at an outreach event listed the following issues (the notation following the listed arguments indicates the background(s) of the respondent(s) presenting a particular argument: Ac: Academic; Au: auditor or professional body of accountants; P: preparer/organisation for preparers; S: standard-setter and U: user).

- If a liability for variable consideration would be recognised before the event triggering the variable consideration has occurred, it could be expected that such liabilities would initially be measured in a very ‘prudent’ manner (at a high amount). This would create ‘cookie jar reserves’, which had been seen for contingent consideration in relation to business combinations. [Ac]
- It could be discussed whether a liability for variable consideration should be remeasured. For cost/benefit reasons, it could make sense not to do so. [S]

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- It should be discussed whether a liability for variable consideration should be measured at fair value or be measured in accordance with the guidance included in IFRS 15 (for when to use an expected amount or the most likely amount). [AU]
- Excess subjectivity in estimation (of a liability for variable consideration recognised before the event triggering the variable consideration has occurred) could lessen the decision-usefulness of the information for users (financial analysts). [Ac]
- If a liability for variable consideration is recognised before the event triggering the payment of variable consideration, the changes in the measurement of the financial liability might be considered a 'financing cost'. However, in most cases these remeasurements relate to actions and activities in relation to the company's operations that should typically be captured in either the cost of sales or an equivalent part of operating profit. [S]
- The existence of variable consideration may affect the purchase price and fair value of the acquired asset. For example, a seller of investment property might provide guarantees to buyers or might demand variable consideration if a certain occupancy level is achieved. These kinds of guarantees/arrangements may affect the initial purchase price of the investment property (and its fair value) within the scope of IAS 40. [S]

One respondent indicated they were not aware of any issues in relation to measurement.

Question 2 – How to assess that an entity has no practical ability to avoid taking an action

Chapter 2 of the DP suggested five alternative criteria for assessing when a purchaser would have no practical ability to avoid taking an action which would trigger a variable consideration (when the purchaser is not legally or constructively obliged to perform the future actions). The five suggested criteria were the following: a purchaser would have no such practical ability:

a) when avoiding taking an action would mean that the purchaser would have to cease its activities (Criterion A);

b) when avoiding taking an action would have a significant unfavourable economic impact on the entity (Criterion B);

c) when avoiding taking an action would have a significant unfavourable economic impact in the context of the acquired asset (Criterion C);

d) when avoiding taking an action would result in using an acquired asset in a manner that would not reflect the economic purpose of acquiring the asset (Criterion D); and

e) when avoiding taking an action would have marginal, economically unfavourable consequences for the entity (Criterion E).

Constituents were asked:

- *whether the listed criteria were valid for assessing whether a purchaser would not have the practical ability to avoid performing a future action that would trigger variable consideration;*
- *whether there were other criteria that should be considered; and*

- *which of the criteria they would prefer.*

Feedback on the DP's suggested alternative criteria

Four comment letter respondents considered the DP's suggested alternative criteria valid. One of these respondents, however, thought criteria (c)-(e) would be hard to use in practice and needed further refinement. For example, it would be difficult for an auditor to assess the economic purpose of acquiring an asset.

One respondent did not consider the discussion on what 'practical ability to avoid' means necessary for accounting purposes. Some extreme contemplated situations (non-going concern assumption) are already to be considered at initial recognition and do not deserve additional standard-setting. Other assessments on the likelihood of an entity paying variable consideration should be considered as part of the measurement.

Criteria besides those suggested by the DP

Three comment letter respondents and a participant at an outreach event suggested that other criteria should be considered. These alternatives were (notation of respondent/participant: Ac: Academic; Au: auditor or professional body of accountants; P: preparer/organisation of preparers; S: standard-setter and U: user):

- when avoiding taking an action would have immaterial, economically unfavourable consequences for the entity. The respondent considered 'immaterial' to be a better term than 'marginally unfavourable' as it is already used in the IFRS literature; [S]
- when the variable consideration is an in-substance fixed consideration (for example, a payment which shall be made when the asset is available for use); [S]
- when there is commercial substance to a purchaser's right not to perform future actions and thereby to avoid the need to pay variable consideration. This was considered to reflect the IASB's latest thinking in IFRS 17 *Insurance Contracts*; [S] and
- when it is reasonably certain that the variable consideration will be triggered (similar to options in IFRS 16). [Au]

One respondent did not consider that there were other criteria besides those stated in the DP.

Preferred criterion

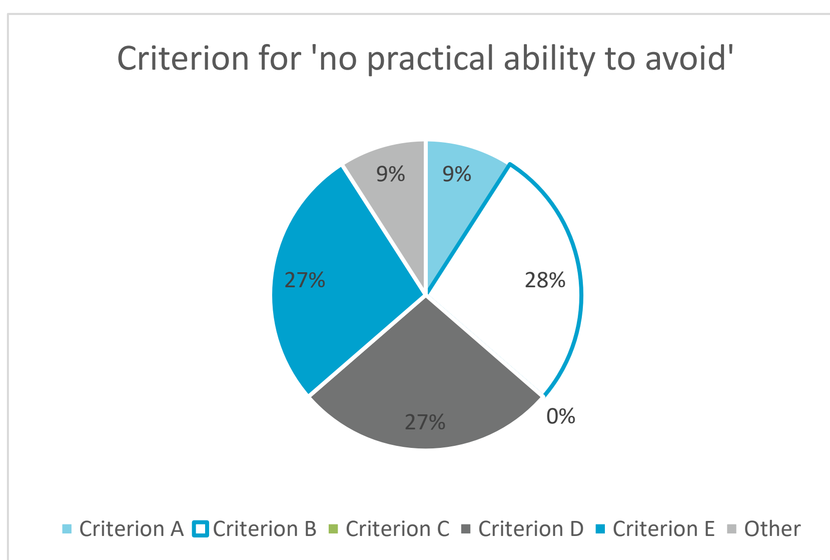
Five comment letter respondents and one participant at an outreach event expressed a preference for the criteria listed in the DP on when a purchaser does not have the practical ability to avoid performing an action. These were as follows (Notation of respondent/participant: Ac: Academic P: preparer/organisation for preparers and S: standard-setter).

- Criterion A was preferred by one participant (speaker) at an outreach event. [P(8)]

[8] The respondent was not in favour of introducing thresholds. The characteristics of an arrangement should determine whether an entity would have a liability or not. In that regard, the participant was more favourable of criterion (a) than any of the other proposed criteria.

- Criterion B was preferred by three comment letter respondents. S, S, Ac[9]
- Criterion C was preferred by one comment letter respondent. S
- Criterion C or Criterion D was preferred by one comment letter respondent. P(3)

At an outreach event, an audience poll on which criterion was the most appropriate to assess whether a purchaser does not have a practical ability to avoid the variable payment was conducted, with the results reflected in the chart below.



One comment letter respondent did not refer to any of the alternatives (a-e) but noted that the conditions relating to 'no practical ability' should be as stringent as possible. In the respondent's view, this condition should not exist in accounting standards because it dilutes the distinction between equity and liabilities (i.e., if an entity has no practical ability to not pay a dividend, it might have no equity).

One respondent did not provide a view on the preferred criterion but noted that it would not be operational if economic compulsion were the crucial criterion, as there would be too much room for judgement. This respondent's answer thus indicates a preference for a criterion for which the result of the assessment would be generally straightforward.

A participant at an outreach event found the criteria helpful, but more principles-based requirements should be considered before considering the criteria.

A participant at an outreach event suggested that, to avoid complex requirements, thresholds in relation to when a practical ability to avoid would not exist should be set either very high or very low. In relation to variable consideration, the participant considered that the threshold should be set low as the parties to a

[9] The respondent noted that the criterion needed to be accompanied by further guidance.

transaction involving variable consideration would almost always know what they are signing up for. If there would be some unusual or extreme terms, then there could be instances where the purchaser would have the practical ability to avoid triggering the variable consideration.

Arguments provided in favour and against the various criteria are summarised in the table below.

Arguments related to considering a purchaser having 'no practical ability to avoid' taking an action which would trigger a variable consideration when avoiding taking an action	
Arguments in favour	**Arguments against**
Criterion A	
• It would be the criterion that would be closest to considering the rights and obligations resulting from a contract and not any economic incentives. [P]	• It is not necessary that a company goes to the point of ceasing its activities to affirm that the entity has no practical ability to avoid taking an action. [S] • The mere likelihood of a transfer should not result in a liability. For example, although an entity would have to pay salaries in the coming accounting period, it should not recognise a liability at the reporting date. (The EFRAG Secretariat notes that 'no practical ability to avoid' would not be the only criterion to be applied for recognition of liabilities.) [Ac]
Criterion B	
• It is less extreme than Criterion A and Criterion C. [S; S]	
Criterion C	
• It is linked to the acquired asset. [P] • It strikes the right balance for when it is possible to avoid triggering the variable consideration to be paid. [S]	• Considering only the acquired asset could miss other important impacts. [S] • The criterion is weak, and Criterion B would presumably include the cases that would be covered by this criterion. [Ac]
Criterion D	

• It is linked to the acquired asset. [P] • If an asset is acquired, it does not make sense economically to not use it as intended. [Au]	• It would not reflect that using an asset for a different purpose is not necessarily bad for the entity. [*S; Ac; S*] • It would not reflect when an entity does not have a practical ability to avoid something. [*Ac; S*]
Criterion E	
	• It would be difficult/costly to apply in practice as it can be complex to calculate all the marginal economic consequences of a single action or non-action. [*S; Ac*]

Notation of respondent/participant: Ac: Academic; Au: auditor or professional body of accountants; P: preparer/organisation for preparers; S: standard-setter and U: user. Notation in italics indicates that the respondent did not support the particular alternative.

Question 3 – Interpretations of the definition of cost

Chapter 3 of the DP noted that the definition of 'cost' included in IAS 16, IAS 38 and IAS 40 ('the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs, e.g., IFRS 2 Share-based Payment') is interpreted differently.

The DP asked constituents how they interpreted the current requirements in relation to whether/when the measurement at cost of an asset covered by IAS 16 or IAS 38 should be updated to reflect changes in estimates of variable consideration.

The DP also asked constituents how 'cost' should be defined to provide the most useful information and whether it would be useful that measurement at cost would be similar across all IFRS Standards.

Whether updating cost should occur under current requirements

Based on their interpretation of current requirements, three comment letter respondents supported updating the cost of the asset acquired for the remeasurements of the liability. Conversely, three comment letter respondents did not support the updating of cost.

Arguments made for and against updating cost are summarised in the table below.

Arguments related to the interpretation of current requirements on whether 'cost' should be updated to reflect changes in (the estimate of) variable consideration	
Arguments for updating	Arguments for not updating
• It is consistent with IFRIC 1. [S; S] • It would be consistent with the Conceptual Framework (par. 6.5). [S]	• It would be consistent with the Conceptual Framework (par. 6.5). [S]

- The reference to 'the time of acquisition' only relates to 'the fair value of other consideration given'. [S]
- It is consistent with certain changes in lease agreements. [S]
- It reflects what is paid for the asset. [S]
- The transaction price is part of the cost of an asset. Accordingly, changes in the transaction price should be included in the cost. [Ac]

- It would follow from a plain English reading of the definition. [S]
- 'At the time of acquisition or construction' applies to both the cash or cash equivalent paid and the fair value of other consideration. [S]

Notation of respondent/participant: Ac: Academic; Au: auditor or professional body of accountants; P: preparer/organisation for preparers; S: standard-setter and U: user

How cost should be defined

Three comment letter respondents considered that cost should be what would (eventually) be paid for an asset. One of these respondents favoured the IFRS 15 guidance on variable consideration (excluding the recognition constraint). The variable consideration should be included in the initial value of the purchased asset and updated only if and when necessary (for reassessment at the end of each reporting period).

On the other hand, two respondents suggested that cost should not be updated to reflect changes in (estimates of) variable consideration. It should be determined at the initial recognition of an asset, and cost should include all relevant consideration, including estimated amounts that reflect the expected eventual transaction price or fair value of the acquired asset at the acquisition date. One of these respondents, however, noted that cost may not be the most useful measurement basis for assets acquired for variable consideration.

One respondent considered that cost should sometimes be updated. Changes in variable consideration linked to future performance or use of an asset should be recognised in the statement of financial performance unless (part of) the variable consideration reflects an outflow of resources embodying economic benefits that relate to future periods. The respondent considered that such an approach could be similar to the approach in IFRS 16 regarding the accounting for variable lease payments by lessees.

Whether there should be the same definition of cost in all standards

Respondents had differing views on whether there should be one single definition of cost. One respondent did not think there should be a single definition as this would not result in more relevant information. Similarly, a participant at an outreach event considered that there could be cost-benefit reasons for not updating and that, in some cases, measurement at acquisition would best reflect the exchange transaction at inception, whereas there could also be arguments for updating the measurement as in IFRC 1 and IFRS 16 for payments that are inflation-linked.

On the other hand, three respondents considered that the concept of cost should be defined consistently across IFRS Standards in a manner that will not result in subjective interpretations.

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Question 4 – Possible requirements for when measurement at cost should be updated to reflect changes in estimates of variable consideration

Chapter 3 of the DP explored the following three possible alternatives for requirements for when the cost of an asset should be updated in situations where the asset is acquired in exchange for variable consideration in cash or another financial instrument.

a) *Alternative 1: Not updating the cost estimate.*

b) *Alternative 2: Updating the cost to reflect all subsequent changes in estimates of variable consideration.*

c) *Alternative 3: Sometimes updating the cost of an asset. The Discussion Paper lists the following criteria which could be used to determine when the cost of the asset should be updated. One or several of the criteria could be used.*

- *Update if estimates of variable consideration are included in the measurement of the asset's cost at initial recognition (Alternative 3a).*
- *Update if the change in estimates of variable consideration takes place before the asset is ready for its intended use (Alternative 3b).*
- *Update the cost to the extent that variable payments are associated with future economic benefits to be derived from the asset (Alternative 3c).*
- *Update the cost to the extent that variable consideration is linked to the initial quality of the asset (Alternative 3d).*

The DP asked constituents whether other possible requirements than those explored in the Discussion Paper should be considered.

Chapter 3 of the DP presents the qualitative characteristics of useful information for the three possible alternative requirements (including the four different criteria under Alternative 3) for when measurement at cost should be updated to reflect changes in estimates of variable consideration. The DP asked whether constituents agreed with the assessed characteristics of useful information for the alternatives. If not, constituents were asked which elements should be considered and which assessments they disagreed with.

The DP asked constituents whether 'cost' should be updated to reflect changes in estimates of variable consideration. If it was thought that 'cost' should sometimes be updated, it was asked under what circumstances it should be updated.

Other possible requirements

Three comment letter respondents did not consider there to be other requirements than those listed in the DP.

One respondent suggested that the solution in IFRS 16 should be considered as it reflected the most recent thinking of the IASB. The respondent was, however, not certain that it would be a good approach for all scenarios.

Two respondents did not agree with including the criterion under Alternative 3 for which cost would be updated if the change in estimates of variable consideration takes place before the asset is ready for its intended use (Alternative 3b). It was considered that the time at which an asset is ready for its intended use is relevant for when amortisation/depreciation should commence. However, it had no relation to the variable consideration established at the time of acquisition.

One respondent thought that the criteria under Alternative 3 referring to the future economic benefits and the initial quality of the asset would be automatically addressed in the impairment test and that there would therefore be no need to consider them for determining cost.

Assessments

Three comment letter respondents generally agreed with the analysis presented in the DP on the qualitative characteristics of useful information. In contrast, one respondent was of the view that the DP's assessments did not help judge the merits of the various alternatives.

Updating 'cost' to reflect changes in estimates

10 comment letter respondents and 13 participants at outreach events expressed a preference for requirements for when the cost of an asset should be updated. The support expressed was as follows (notation of respondent/participant: Ac: Academic; Au: auditor or professional body of accountants; P: preparer/organisation for preparers; S: standard-setter and U: user).

- Alternative 1 was preferred/could be accepted by two comment letter respondents and four participants (speakers) at outreach events. U(10), S(11), S(10), Ac, S, S, S

- Alternative 2 was preferred/could be accepted by two comment letter respondents and one participant (speaker) at an outreach event. S, S (12), S

- Alternative 3 was preferred/could be accepted by nine comment letter respondents and eight participants (speakers) at an outreach event. U(10), Au(13), Au (14), S, S, S, P, s(12), Ac, P, S(10), S(13), Au(13), U(13), Au, Au, P

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[10] The respondents favoured Alternative 1 or Alternative 3.

[11] The respondent only supported Alternative 1 when the subsequent event does not reveal evidence relating to the estimate of historic coast at acquisition date, which the respondent noted would almost certainly not be relevant for variable consideration depending on the entity's future actions.

[12] The respondent did not express a clear preference for any of the alternatives, albeit they expressed that they did not see any benefits to Alternative 1.

[13] The respondent favoured Alternative 3 without specifying the criterion to be applied.

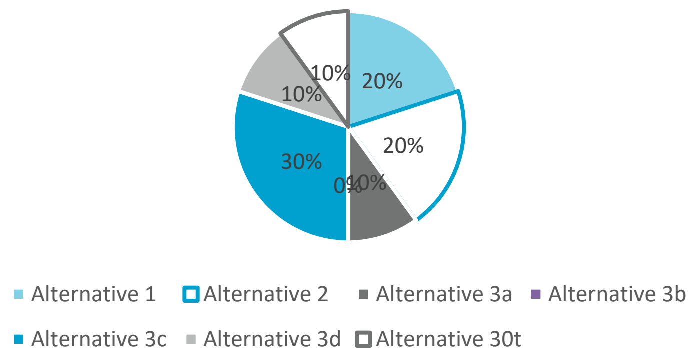
[14] The respondent favoured Alternative 3 without specifying the criterion to be applied. The respondent noted that it would be important to consider the range of different scenarios to which it might apply and how practical it would be to identify and distinguish between the criteria in practice. Judgement would likely be required and the IASB should be encouraged to produce guidance to support consistency.

- Alternative 3a was preferred by one comment letter respondent. [S]
- Alternative 3b was preferred by one comment letter respondent. [S]
- Alternative 3c was preferred by three comment letter respondents and two participants (speakers) at outreach events. [S, P, Ac(15), P, Au]
- Alternative 3d was preferred by two participants (speakers) at outreach events. [Au, P]

Two comment letter respondents did not support any of the six alternatives presented in the DP. One respondent found it difficult to prefer one of the alternatives for the measurement of the asset. Another respondent opined that the initial measurement should only be updated under a current value or fair value model but not under a cost model. However, this respondent questioned whether a cost model would result in the most useful information.

Gathered at an outreach event involving a panel of speakers, the results of an audience poll on which alternative they considered to be the most appropriate for whether/when the cost of an acquired asset should be updated to reflect changes in estimates of variable consideration are summarised in the chart below.

Updating the measurement of the acquired asset



Alternative 3Ot indicates that the respondent preferred to sometimes update the cost of an asset but under conditions not assessed in the DP.

The arguments provided by comment letter respondents or participants at outreach events in relation to the different alternatives are summarised in the table below.

[15] The respondent noted that if the acquired asset is consumed when the remeasurement of the liability would take place, the adjustment should not be added to any previously recorded asset but treated as an expense.

Arguments related to possible alternatives for requirements for when the cost of an asset should be updated in situations where the asset is acquired in exchange for variable consideration in cash or another financial instrument

Arguments in favour	Arguments against
Alternative 1	
• It is consistent with IFRS 3. [S; S; S] • Measuring assets independently of liabilities is supported by economic theory. The Financial Economics (Modigliani-Miller) theorem states that the market value of a company is calculated as the present value of its future earnings and that the values of the underlying assets are independent of the company's capital structure. [S] • It is consistent with IFRS 16. [S] • It is consistent with the accounting of foreign currency borrowings. [S] • It would follow from the principles in IAS 10 *Events After the Reporting Period*. [S] • It would be in accordance with IFRS 9. [S] • It is consistent with the definition of costs. [S] • It is consistent with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. [Ac] • It would be less costly as the cost price would not increase and, accordingly, the chances of an impairment loss would be lower than under the other requirements. [P] Against this argument, it was noted that it could be assumed that variable consideration is seldomly structured in a manner that would result in the purchaser having to recognise an impairment loss. [U]	• Never updating the cost would mislead the users as there must be some economic rationale behind the acceptance of a variable consideration as part of the purchase price of an asset. [S] • It would be rules-based (instead of principle-based). [Au] • It would be inconsistent with IFRIC 1. [Au] • It could be a costly alternative as preparers would have to explain all the effects on profit or loss. The results of these effects could also result in the entity preparing non-GAAP measures. [P]
Alternative 2	

• It would provide useful information, namely the final amount of cash paid to acquire an asset. This would result in better return of assets calculations. [S; S; P] • Fluctuations in profit or loss due to changes in the measurement of a liability for variable consideration could be avoided. [U]	• It could result in changes caused by factors not related to the asset and/or outside the control of either the seller or the buyer (e.g., changes in discounting assumption) being reflected in the measurement of the asset. [S; Au] • It would be rules-based. [Au] • It would result in foreign exchange rate changes being included in the cost price. [Au]
Alternative 3a	
• It would allow for the inclusion in the agreed price of changes in the cost of the asset when these are linked to obtaining additional information in the future on facts and circumstances that existed at the date of acquisition. [S]	• It would be more complex than Alternative 1 or Alternative 2. [S]
Alternative 3b	
• It would be in accordance with IAS 16.20, which states that the recognition of costs in the carrying amount ceases when the item is in the location and condition necessary for the asset to be capable of operating in the manner intended by management. [S] • It would be easy to apply. [S]	• It would be in conflict with IAS 16.16 as the costs would not be 'directly attributable' to bringing the asset to its location and condition. That is, the variable consideration relates to the liability but not to the asset and is not a directly attributable cost. [S] • It would be more complex than Alternative 1 or Alternative 2. [S]
Alternative 3c	
• It would result in reflecting changes in variable consideration in profit or loss in the period(s) in which the benefits would be affected. [Au] • It reflected the original thinking behind IFRIC 1 (although the final requirements included in IFRIC 1 were different). [Au]	• It would be too subjective to assess whether variable consideration is linked to future economic benefits derived from the asset. [S] • It would be more complex than Alternative 1 or Alternative 2. [S]
Alternative 3d	

• It is conceptually correct. [*P*; Au] • It would reflect a change in the initially agreed balance of risks and rewards between the purchaser and the seller and therefore more likely adjusts the cost of the asset in accordance with IFRIC 1. [*Au*] • It would not result in changes in the asset's cost if the reason for introducing variable payments was to share risks and rewards and the changes would otherwise not be related to the asset. [P]	• It would be too subjective to assess whether variable consideration is linked to the initial quality of an asset. [*S*; *P*] • It would be more complex than Alternative 1 or Alternative 2. [<u>S</u>]

Notation of respondent/participant: Ac: Academic; Au: auditor or professional body of accountants; P: preparer/organisation for preparers; S: standard-setter and U: user. Notation in italics indicates that the respondent did not support the particular alternative. An underlined notation indicates that the respondent did not express a (clear) preference for any of the two alternatives.

Question 5 – General requirements for accounting for variable consideration

Chapter 4 of the DP complemented chapters 2 and 3 by assessing the broader requirements for accounting for variable consideration. Chapter 4 examined the advantages and disadvantages of respectively developing a unified set of principles for IFRS requirements to account for variable consideration and undertaking standard-by-standard amendments that could apply to the two issues covered in chapters 2 and 3 (i.e., liability recognition when payment depends on the purchaser's future actions and measurement of the acquired asset). The DP asked constituents whether they agreed with the identified advantages and disadvantages.

Based on constituents' assessment and the outlined advantages and disadvantages of respectively developing a unified set of principles for IFRS requirements to account for variable consideration and undertaking a standard-by-standard amendment, constituents were asked which of the standard-setting responses they supported and whether they thought that requirements to deal with the issues mentioned in chapters 2 and 3 should be based on a unified set of principles for how to account for variable consideration.

11 comment letter respondents commented on this question, while two respondents did not provide specific comments on this question. At outreach events, eight participants commented on this issue.

Do you agree with the identified advantages and disadvantages?

All respondents either explicitly agreed or did not disagree with the DP's stated advantages and disadvantages on developing either a unified set of principles to account for variable consideration or undertaking standard-by-standard amendments. However, one respondent considered that some of the DP's identified disadvantages were not necessarily inconsistent with taking a principles-based approach.

Based on your assessment and the outlined advantages and disadvantages of respectively developing a unified set of principles for IFRS requirements to account for variable consideration and undertaking a standard-by-standard amendment, which of the standard-setting responses do you support?

Across the comment letter and outreach event feedback, mixed views were expressed on the approach for developing IFRS requirements for variable consideration. On balance, the majority of respondents favoured standard-by-standard amendments over the development of a unified set of principles.

Preference for standard-by-standard amendments: Four comment letter respondents and seven participants at outreach events considered that undertaking a standard-by-standard amendment would represent a more pragmatic approach and would ensure that different transactions are treated differently. The following comments were provided.

- The focus should be on normal purchases of assets under IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, with dedicated paragraphs on variable consideration.
- Only similar items should be accounted for similarly. Accordingly, standard-by-standard amendments are preferable. That being said, it should be considered to reduce the number of different cost concepts used in IFRS Accounting Standards.
- There is no need for a comprehensive review of all IFRS Accounting Standards that include requirements for variable consideration because some of them are working well, and there may be circumstances that justify different accounting treatments of variable consideration.
- It is important for standard-setters to stay narrowly focused on, for example, items of PPE and intangibles acquired for variable consideration. There would still be a variety of different types of transactions in the form of different types of rights and different forms of consideration. A standard-setter would have to consider the different types of rights and obligations and their recognition requirements, measurement uncertainty and cost/benefit considerations. It was also necessary to consider both initial and subsequent measurement requirements. And it was also necessary to ensure that these new requirements would work well with other existing requirements on PPE and intangibles.
- The debates of the IFRS Interpretations Committee have shown that, it has already been difficult to arrive at an answer for the issue when it relates to the acquisition of an intangible asset. It would be even more difficult if a given approach should also take into account variable consideration in relation to business combinations and leases.

One respondent supported a standard-by-standard approach. However, in this respondent's view, a unified approach should be applied for the acquisition of assets within the scope of IAS 16 and IAS 38, whose approach for variable consideration could differ from that regarding the acquisition and subsequent accounting of associates and joint ventures applying IAS 28 *Investments in Associates and Joint Ventures* or IAS 27 *Separate Financial Statements* (which is more akin to the requirements of IFRS 3 *Business Combinations*).

Two respondents considered these two standard-setting approaches more useful when used together and agreed with the suggestion in paragraph 4.71 of the DP. Indeed, a standard-by-standard review to address the existing issues using an agreed conceptual basis could be the ideal methodology. In addition, one of these respondents also provided the following comments.

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- Addressing how variable consideration should be accounted for in relation to intangible asset should be the priority as challenges mostly relate to these assets.
- Addressing diversity in practice and inconsistencies within one standard should be prioritised before dealing with diversity in practice related to variable consideration for assets covered by different standard.

Preference for a unified set of principles: Two comment letter respondents and one participant at an outreach event expressed support for developing a unified set of principles. One of these respondents stated that it would be the best way to establish common guidelines, which could be adapted or expanded depending on the specific characteristics of transactions as mentioned in the DP, and to avoid diversity in practice. Conversely, a standard-by-standard review would involve more time for development and subsequent endorsement, in addition to the divergence of requirements for similar transactions that might arise.

No preference for either option: One comment letter respondent did not express a specific preference. That said, this respondent considered the DP an excellent starting point for any further discussion on addressing existing diversity in practice, which should be made with caution considering other standard-setting priorities.

Do you think that the requirements to deal with the issues mentioned in chapters 2 and 3 should be based on a unified set of principles for how to account for variable consideration?

One respondent was of the view that targeted amendments would resolve most cases of diversity in practice mentioned in chapters 2 and 3, and, in addition, a standard-by-standard approach could be implemented more swiftly than developing a unified set of principles.

Two comment letter respondents stated that establishing one unified set of principles would provide preparers with a set of guidelines that would enable them to determine the appropriateness of the recognition and measurement of a liability for variable consideration and hence the measurement of the asset acquired.

Question 6 – Applying an IFRS 15 mirroring approach

Chapter 4 of the DP noted that requirements on variable consideration included in IFRS 15 could be 'mirrored' to provide guidance on how to account for a liability for variable consideration (with the exception of the constraint to only include in the transaction price the amount of variable consideration that is highly probable not to result in a significant reversal in the amount of cumulative revenue recognised).

The DP asked whether constituents thought such an approach would result in useful information.

Ten comment letters addressed this question. Three comment letters did not address it. Five participants at outreach events commented on the issue.

Do you think such an approach would result in useful information? Please explain why or why not.

On balance, a majority of the respondents were opposed to the IFRS 15 mirroring approach.

Opposition to the mirroring approach: Seven respondents and three participants at outreach events disagreed with the IFRS 15 mirroring approach for the following reasons:

- it would require more extensive and deeper discussions to address any potential consequences (e.g., several follow-up questions, cross-cutting issues);
- the lower threshold required by IAS 37 (i.e., 'more likely than not' versus 'highly probable') would be preferable;
- it would not be adequate because it would seem to require the recognition of liabilities that do not meet the definition of a liability, such as where a future outflow is probable, but the purchaser retains the practical ability to avoid it;
- the recognition and measurement of revenue from the seller's perspective has other objectives (i.e., the amount recognised should reflect the consideration to which an entity expects to be entitled in exchange for goods and services) than the recognition and measurement of variable consideration from the buyer's perspective (i.e., the amount recognised should reflect the costs in the income statement as part of the determination of income);
- it would lead to differing accounting impacts on the sellers' and buyers' financial statements due to the asymmetry of available information between the parties and their perspectives; and
- some IFRS 15 requirements are designed to create an outcome in the P&L (i.e., avoiding revenue reversal) rather than accurately estimating the cost of an asset.

Furthermore, two respondents suggested an analysis on whether the other IFRS Accounting Standards that also contain requirements about variable payments (e.g., IAS 19 *Employee Benefits*, IFRS 16 or IFRS 3) have a criterion that follows the same principles and whether they would be compatible with the new general requirements for variable consideration.

Support for mirroring approach: Two comment letter respondents stated that the IFRS 15 approach on variable considerations (minus the constraint) mentioned in the DP could be mirrored for the liability recognition. They considered that it would provide consistent and pragmatic guidance to estimate the costs of the variable consideration related to purchases of PPE and intangible assets accounted for under IAS 16 and IAS 38.

One respondent highlighted that the IFRS 15 mirroring approach could work properly at the initial recognition (i.e., the acquisition date of an asset) but not for subsequent measurement. Similarly, two outreach participants opined that some aspects of an IFRS 15 mirroring approach could be considered, for example, when control is obtained by the purchaser.

Other comments

Comments were also made on issues for which the DP did not include a specific question by several comment letter respondents as well as participants at outreach events. These comments related to:

- the usefulness of the DP and the importance of the topic;
- the scope of the DP;
- assumptions and statements made in the DP;

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- whether liabilities for variable consideration should be recognised and measured based on the asset received; and
- next steps.

Comments related to these issues are summarised below.

Usefulness of the DP and importance of the topic

Some respondents as well as participants at outreach events provided the following comments in relation to the usefulness of the DP and the importance of the topic (notation of respondent/participant: Ac: Academic; Au: auditor or professional body of accountants; P: preparer/organisation for preparers; S: standard-setter and U: user).

- Accounting for variable consideration not related to business combinations is an important issue where there is divergence in practice and for which additional guidance is needed. [S; S; S; S]
- More transactions are now affected by lack of guidance as following the new definition of a business, more transactions will be asset acquisitions instead of business combinations. [S; S]
- A public discussion on variable consideration is inappropriate as a project on variable consideration is not on the IASB's current agenda. [S]
- There is no imminent need for a comprehensive review of the current accounting requirements for variable consideration. However, limited modifications to clarify the principles could be justified. [P]
- The DP includes a good summary of the difficult areas, supported by some detailed analysis. [Au]
- It is premature for the DP to analyse the various alternatives using the qualitative characteristics because it gives suggestions made in the DP by analogy with other IFRS requirements a semblance of validity they do not deserve, as adjusting liabilities or assets for variable consideration would be a change in estimate, not a change in accounting policy. IAS 10 is therefore the relevant standard to consider. [S]

Scope of the DP

In relation to the scope of the DP, the following comments were made by respondents submitting a comment letter or by participants at outreach events.

- The DP should have discussed disclosures to provide in relation to variable consideration. [Ac; Au]
- The DP should have also considered when an asset acquired for variable consideration should be recognised. [Ac; S]
- For the sake of simplicity and to ensure a focus on the key issues, it is appropriate that the DP does not consider the economic substance of transactions and risk-sharing/collaborative arrangements is appropriate. [S]

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- It is appropriate to distinguish between variable consideration that depends on the purchaser's future action and variable consideration that does not, as variable consideration that does not depend on the purchaser's future action could be a derivative financial instrument. [Au]
- The way the DP defines variable consideration could result in accounting arbitrage and opportunism since (as mentioned in the DP) a contract to be settled in a fixed quantity of apples is not within the scope of the DP, but a contract to be settled at a price varying with the price of apples is within the scope. Several academic papers have shown that accounting standards could leave room for opportunistic behaviour on the side of preparers, which could reduce the relevance and usefulness of financial reporting information. [Ac]
- The DP should have discussed the substance of a given transaction. [Ac]
- The scope should have included transactions for variable consideration for which there are currently (clear) requirements. This would have been a more conceptual approach. Recent research claims that one reason why some accounting issues have proven difficult to solve is because of differing treatment of otherwise similar arrangements and items depending on the context in which the arrangement or item occurs. [Ac]
- In relation to the liability recognition issue, the DP only considers variable consideration that depends on the purchaser's future actions, but (similar to what is mentioned in the Discussion Paper) it can sometimes be difficult to assess whether something would be within the control of the purchaser. [Ac]

Assumptions and statements made in the DP

One respondent considered that an obligation to pay a variable amount and a fixed amount should be considered as one unit of account. The respondent considered that both the fair value of the obligation related to the variable amount and the obligation related to the fixed amount should be recognised when control of the acquired asset is obtained. The DP considered the obligation for variable consideration separately from the obligation for a fixed consideration. This was because a transfer including a very low fixed consideration could otherwise be accounted for very differently than a transaction with no fixed consideration. However, if an obligation for all variable consideration were recognised at the same time as an obligation for fixed consideration, this issue would not arise.

The DP mentioned volume rebates as an example where current IFRS requirements would result in the cost of an asset being updated. One respondent submitting a comment letter, however, considered that volume discounts and rebates were related to the transaction cost rather than the cash or cash equivalent component.

The DP mentioned the IASB's Exposure Draft as an illustration of the IASB's latest thinking on whether the cost of an asset should subsequently be updated. One respondent submitting a comment letter, however, considered that the reference in the DP to regulatory assets and liabilities was not likely to be relevant in accounting for commercial transactions.

The DP considered an example in which an entity should pay an additional amount if it sold over 10 000 jars of chocolate spread using the seller's recipe. The DP implicitly assumed that one asset was being transferred in the example. One respondent submitting a comment letter considered that this example included two assets being transferred. The respondent noted that an example where only one asset would be transferred was the

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acquisition of land that is currently zoned for farming and additional/variable considerations that will be payable if the land is re-zoned to commercial/residential within two years.

A participant at an outreach event considered that the DP, when discussing whether or not the cost of an asset should be updated, should have distinguished between (a) changes in the expected performance or expected cash flow of the acquired asset (the quality of the asset) and (b) changes in the estimate of variable consideration of the transaction price (which could be linked to the quality of the asset – or other factors).

EFRAG's DP considered when a liability, which would eventually be covered by IFRS 9, should be recognised. One respondent submitting a comment letter thought that it would be more useful not to address when to recognise a liability for variable consideration by starting from existing IFRS Accounting Standards (IFRS 9 or IAS 37).

Starting with the asset

One participant at an outreach event considered that, instead of considering first when to recognise a liability, the starting point should be the measurement of the acquired asset. When the asset would be recognised, the obligations to be recognised should equal the fair value of the asset. Part of the obligations incurred would be contractual liabilities that would not depend on the purchaser's future actions and could be a financial liability to be accounted for under IAS 32 and IFRS 9. Another part of the obligations would depend on the purchaser's future actions and could be a different type of liability. Accordingly, for the obligations to match the measurement of the acquired asset, it would be necessary to introduce a hybrid model that would reflect the different types of obligations, or the different attributes of the obligations, incurred in acquiring an asset. In the participant's view, getting the asset side right and differentiating between the unconditional and conditional obligations would provide a credit analyst with useful information because it would present only the contractual payments that have to be made regardless of the purchaser's future actions.

Next steps

Some respondents and participants at outreach events provided comments on the next steps and additional issues that needed to be considered before requirements on variable consideration could be developed on the issues covered by the DP. The comments provided were the following:

- The relationship with IFRS 3 *Business Combinations* and IFRS 16 *Leases* and, therefore, the arguments for potentially different recognition and measurement criteria, should be considered before moving the project into a standard-setting phase. [S]
- It should be considered when an arrangement is a risk or profit-sharing arrangement and/or collaborative arrangement, which is out of the scope of the DP, versus when it is an asset acquisition in the scope of the DP. [S]
- It should be considered whether a contract including variable consideration should be accounted for as one or two transactions (the Conceptual Framework does not provide an answer to this). [S]
- The assessment of 'no practical ability to avoid' in relation to variable consideration should be in line with the future implementation of that concept in IAS 32/IFRS 9 and IAS 37. [S]
- It should also be clarified whether the original effective interest rate should be adjusted when updating the measurement of the liability for variable consideration. [S]

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- The IASB's project on the Equity Method should be monitored as it also considered the accounting for contingent consideration. [S]
- The inconsistent accounting treatment of variable consideration is one part of a broader group of inconsistencies within IFRS accounting standards, including the lack of a consistent approach to the recognition of liabilities and the lack of a consistent definition of 'cost'. [Au]
- The issues considered in the DP for the measurement of the asset could apply in principle to assets measured at fair value, too – that is, whether fair value as of initial recognition is updated for changed estimates of, or actual, variable consideration or whether that is an issue associated purely with subsequent measurement. [S]
- Specific parts of the issues could be considered as part of the FICE project. [S]
- If it would not be possible to fix the issues in relation to when to recognise a liability for variable consideration and whether/when to update the cost of the asset in the short run, disclosures could be introduced in the short run to help users. [P]
- Retrospective adjustments of the cost price of an asset should be considered. [Au; U]
- Beyond the variable consideration that would result in the purchaser paying an additional amount, when the purchaser should recognise a receivable (if the price would be reduced) should also be considered. [P]

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APPENDIX – List of respondents and outreach activities

List of respondents (comment letters)

Respondent	***Country***	***Type***
Deutsches Rechnungslegungs Standards Committee e.V.	Germany	National Standard-Setter
Austrian Financial Reporting and Auditing Committee	Austria	National Standard-Setter
European Accounting Association (EAA)	International	Association of academics
Raad voor de Jaarverslaggeving (RJ)	The Netherlands	National Standard-Setter
Svenskt Näringsliv	Sweden	Preparer organisation
Rådet för finansiell rapportering	Sweden	National Standard-Setter
Organismo Italiano di Contabilità	Italy	National Standard-Setter
ICAEW	International	Accountancy professional organisation
Instituto de Contabilidad y Auditoria de Cuentas	Spain	National Standard-Setter
Michael Bradbury	New Zealand	Academic/standard-Setter
Mazars	International	Audit firm
Australian Accounting Standards Board Research Centre	Australia	National Standard-Setter

List of respondents (completed surveys)

Respondent	***Country***	***Type***
EFFAS	European	User organisation

Public outreach events

Organiser(s)	**Date**	**Format/**
EFRAG and BusinessEurope	16 February 2023	Online meeting

Closed outreach events

Organiser(s)	*Date*	*Place*
EFFAS	21 October 2022	Physical meeting – Brussels
Accountancy Europe	16 November 2022	Online meeting
EFRAG (EFRAG Academic Panel)	29 November 2022	Physical meeting – Brussels
DASB	14 December 2022	Online meeting
ENG	23 November 2022	Physical meeting – Brussels
IASB (ASAF meeting)	8 December 2022	Physical meeting – London
EFRAG (CFSS)	15 March 2023	Online meeting
European Accounting Association	5 May 2023	Online meeting