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Feedback statement on variable consideration

Cover Note

Objective

- 1 The objective of this session is to present the feedback received in response to EFRAG's Discussion Paper [Accounting for Variable Consideration—From a purchaser's perspective](#) ('the DP') and to receive directions from EFRAG FR TEG on whether EFRAG should develop any recommendations following the feedback.

Background

- 2 In September 2022, EFRAG issued the DP. The deadline for commenting on the DP was extended to 30 November 2023. Comments could be provided in response to the DP by submitting a comment letter or by completing an electronic survey. 13 comment letter responses were received from constituents within and outside the EU.
- 3 EFRAG also gathered input on the DP through a targeted outreach consisting of nine outreach events and meetings with stakeholders including presentations at the IASB ASAF meeting and by hosting a webinar that drew the perspectives of expert stakeholders.
- 4 The input received from the comment letters and outreach is summarised in the draft feedback statement (agenda paper 03-02).

Considerations on whether to include recommendations

- 5 When EFRAG issued its feedback statements in relation to its discussion papers on accounting for crypto assets (liabilities) and better information on intangibles it included some tentative recommendations to the IASB based on the EFRAG FR TEG and FRB redeliberations on the feedback received. This was a departure from prior Discussion Papers, where only Feedback Statements without recommendations were published after consultation periods. The question arises whether EFRAG should similarly issue recommendations for the variable consideration project.
- 6 Though constituents' feedback was generally¹ supportive, Based on the input received, for the following reasons, the EFRAG Secretariat's preliminary view would be against developing recommendations.

¹ As noted in the feedback statement, there were also criticisms including on the limited scope of the Discussion Paper content.

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- (a) As the IASB did not retain this project in its research pipeline following the 2021 Agenda Consultation, we surmise that it is unlikely to initiate a project in the next three years. Moreover, we note that this project is unlike the intangibles project and crypto-assets project, whereby the recommendations can have near to medium-term impacts. Recommendations based on the *Better Information for Intangibles DP* can influence the envisioned IASB intangibles research project while recommendations based on the *Accounting for Crypto-Assets (Liabilities) DP* can influence the consideration of digital assets within the scope of the IASB intangibles project. Furthermore, the accounting for crypto-assets has been on the agenda of various national standard setters and EFRAG's recommendations were timely.
 - (b) Related to point a) above, in September 2023, taking account of the limited staff resources and the need to address existing reactive and under-development high-priority proactive workplan projects (connectivity and cash flow reporting), the EFRAG FRB categorised variable consideration as a medium-priority project.
 - (c) The feedback received generally shows that variable consideration should be considered on a Standard-by-Standard level including through projects on the current IASB workplan (e.g. Equity method, IAS 32, and IAS 37).
 - (d) The feedback highlights the importance of also considering measurement issues, possible disclosures and addressing the economic substance of the transactions in any recommendations made to the IASB for standard-setting action. Hence, it is likely that significant further work (e.g. EFRAG FR TEG meetings) would be needed to craft suitable and actionable recommendations.
 - (e) The feedback received generally shows the existence of diverse views on how to account for variable consideration purchaser entities (i.e., on the two issues). A recommendation for the recognition of liability for variable consideration for the acquisition of a single asset where the variable payment depends on the purchaser's future actions could be made. For instance, based on the feedback, the recommendation could be that recognition should occur 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. However, respondents to the DP were split on circumstances where the latter condition is deemed to exist.
- 7 Despite the above-expressed reservations towards developing recommendations, the EFRAG Secretariat notes that, as acknowledged by several respondents, the Discussion Paper along with the feedback can be a useful first step and an important reference for EFRAG (and the IASB) when providing input on (and developing) specific standards (For example, response to the IASB's forthcoming exposure drafts on provisions and equity method). Of note, EFRAG will present the feedback statement – Cover at the March 2024 ASAF meeting.

Questions for EFRAG FR TEG

- 8 Does the EFRAG FR TEG have any comments on the input received in response to the DP?
- 9 Does EFRAG FR TEG want to recommend to the EFRAG FRB that EFRAG provides recommendations based on the input received in response to the DP?

Next steps

- 10 This draft feedback statement will be further edited before it is issued to enhance the presentation and readability of the content.
- 11 The EFRAG Secretariat will present the draft feedback statement to the EFRAG FRB on 28 February 2024.
- 12 EFRAG will present the feedback received in response to the DP at the March 2024 ASAF meeting.

Agenda Papers

- 13 In addition to this cover note, agenda paper 03-02 – *Draft Feedback statement on EFRAG DP Accounting for Variable Consideration* – has been provided for the session.