EFRAG
35 Square de Meeûs
Brussels
Belgium

Stockholm November 24, 2023

Discussion Paper

Accounting for variable consideration – from a purchaser’s perspective

Thank you for the opportunity to respond to the discussion paper Accounting for variable consideration. The Swedish Enterprise Accounting Group has the following comments.

Generally, we do not see an imminent need for a comprehensive review of the current accounting requirements for variable consideration. To our knowledge, the divergence in practice that the discussion paper refers to is a limited problem. Overall, we believe that the current requirements in IFRS 3 Business Combinations works well and should not be subject to amendments. Limited modifications to clarify the principles of other standards could however be justified.

Our answers to the specific questions posed by EFRAG in the DP are provided in the appendix below.

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Appendix

Question 1
When to recognise a liability for variable consideration

We strongly believe that the concept of acquisition cost is fundamental when it comes to acquiring assets. Thus, we don't see alternative 2 as a valid approach for recognition of a liability for variable consideration. The consequence of alternative 2 could be an acquisition cost amounting to nil even if an acquisition has been fulfilled and the purchasing entity has obtained control of the acquired asset.

We favor the approach to acquisitions in IFRS 3 and believe it would be inconsistent to treat a business combination and an asset deal differently in this particular aspect. In addition, depending on the terms of a purchase agreement, a purchasing entity may be required to recognise a liability according to IAS 32 when the deal is approved by both parties. This could be contradictory to a requirement to recognise the liability at a later point in time, upon performance of certain actions in accordance with the approach in alternative 2.

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

We are in favor of alternative in c) or d) since these criteria are linked to the acquired asset as such.

Question 3
Interpretations of the definition of cost

In our view, the concept of cost should be defined consistently across all IFRS Standards as the fair value of the acquired asset at the acquisition date. The cost of an asset is of high information value and the definition is important to protect and keep consistent.

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

We believe that there are certain situations where it is legitimate to update the cost of an asset but do not consider that the cost should be updated to reflect all subsequent changes in estimates of the variable consideration. We favor an approach that is linked to the characteristics of the acquired asset, as described in the third bullet under alternative c); "Update the cost to the extent that variable payments are associated with future economic benefits to be derived from the asset". We believe that this is consistent with the initial recognition criteria in IAS 16.

Question 5
General requirements on accounting for variable consideration

We fear that a unified standard approach might undermine the current requirements for variable consideration in IFRS 3 which in our view work well in connection with business combinations. We are more in favor of standard-by-standard amendments in those cases where such amendments may be needed. However, we don't see that there is a need for a *comprehensive review of all standards that include requirements for variable consideration. Some standards work well, and there may be circumstances that justify different accounting treatments of variable considerations.*

Question 6
Applying an IFRS 15 mirroring approach

We do not think an IFRS 15-mirroring approach would result in useful information. If the aim is to obtain the same financial impact for the purchaser and the seller simultaneously, this is not likely to be successful. Even if the accounting principles are based on the same criteria it will lead to different accounting treatment in practice as the availability of information differ between the parties. In addition, the "highly probable" criteria as such is not aligned with the definition of a financial liability in IAS 32.