

The Swedish Financial Reporting Board

EFRAG Financial Reporting Board
35 Square de Meeûs
B-1000 Brussels
Belgium

Re: Discussion Paper – Accounting for Variable Consideration from a Purchaser’s Perspective

Dear Board Members,

The Swedish Financial Reporting Board is responding to your invitation to comment on the *Discussion Paper Accounting for Variable Consideration from a Purchaser’s Perspective*.

We appreciate and follow EFRAG’s work on how to account for variable consideration that is not related to business combinations covered by IFRS 3. We share EFRAG’s view that this is an important issue where there is divergence in practice and for which additional guidance is needed.

Given the scope limitations set out in the DP we are in favour of:

- Recognition of a liability for the variable consideration at the time of obtaining control of the acquired asset, i.e., at initial recognition of the asset,
- That the liability initially is measured and recognised at fair value at the time when the purchaser has no practical ability to avoid taking action that would trigger the variable consideration and
- Subsequent remeasurement of the liability should be recognised as an update to the cost of the asset and not in the P&L

We acknowledge that the assessment of when the entity has *no practical ability to avoid taking action that would trigger the variable consideration* is difficult and judgmental, but we think it should be determined based on when avoiding taking action would have a significant unfavourable economic impact in the context of the acquired asset.

Finally, the scope limitations in the DP needs to be elaborated and more clearly defined. We find this especially important for defining when an arrangement is a risk or profit-sharing arrangement and/or collaborative arrangement which is out of scope versus when it is an asset acquisition in scope.

Please see below for our detailed comments. For your convenience, please note that we have only responded to question 1-4 based on our priority of importance.

Rådet för finansiell rapportering

Additional comments

Scope

The DP is limited in scope by three boundaries, which we find not fully analysed in the DP:

1. The interaction between fixed and variable consideration
2. Asset acquisitions versus profit or risk sharing and/or collaborative arrangements
3. Acquisition of one asset versus acquisition of additional rights at a later stage

To provide the IASB with sufficient information to start a project for standard-setting, these borderlines and interfaces must be more clearly defined as they will have an impact on measurement and recognition of the liability and the cost of acquiring the asset. Therefore, we recommend a deepened analysis of the scope issue to provide more useful input to IASB's potential standard setting work. Moreover, the paper has, for example, scoped out the relationship with IFRS 3 and IFRS 16 and therefore the arguments for potentially different recognition and measurement criteria should also be considered before moving the project into standard-setting phase.

Question 1 – When to recognise a liability for variable consideration

We support the recognition of a liability for variable consideration when the purchaser obtains control of the acquired asset unless the purchaser would have a practical ability to avoid taking action that would trigger the variable consideration. We find that this is consistent with the definition of a liability according to paragraph 4.26 of the conceptual framework and that all criteria according to paragraph 4.27 are fulfilled. The past event is when the purchaser obtains control of the asset and thereby agrees and are obliged to make additional payments in the future. We consider this to be the case regardless of the remaining uncertainties with respect to the variable consideration as the entity cannot avoid it through its own economically wise decisions (see question 2).

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

We agree that the proposed criteria by EFRAG in question 2 are valid for assessing the question above. However, we think that assessing when an entity has no practical ability to avoid taking an action in practice is difficult. We believe that the preferred criterion should be directly related to the asset in question i.e., alternative c. Based on the arguments in 2.50 c) it is reasonable to argue that a significant unfavourable economic impact in the context of the asset strikes the right balance for when the entity's possibilities to avoid triggering the variable consideration to be paid out is unavoidable. The criterion based on the use of the asset not in a manner that would reflect the economic purpose of acquiring the asset is too limiting and do not focus on the cash generating ability of the asset.

Question 3 – Interpretation of the definition of cost

We acknowledge that the interpretation of the definition of cost is complex in many cases as well as that there is a need to properly define the term in a way that will avoid judgemental and subjective interpretations.

We are in favour of a definition focusing on the amount of cash and cash equivalents paid and the fair value of other assets transferred. Therefore, we support an interpretation that is emphasizing on the consideration given regardless of whether the consideration is fixed or variable. The definition of cost can however not be separated from the characteristics of the asset at the time of the acquisition. We interpret the DP given its scope limitations that this is related to the asset as it was at the time of gaining control.

Rådet **för** finansiell rapportering

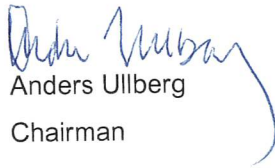
Question 4 – Possible requirements for when measurement at cost should be updated to reflect changes in estimates of variable consideration

Given the scope limitations, especially regarding profit-sharing arrangements, we support that the cost of acquisition should be updated to reflect changes in estimates of the variable consideration to mirror the cash and cash equivalents paid and fair value of other assets transferred as discussed in question 3 above.

If you have any questions concerning our comments, please address our Executive member Fredrik Walmeus by e-mail to: fredrik.walmeus@radetforfinansiellrapportering.se.

Stockholm, 27 November 2023

Yours sincerely


Anders Ullberg
Chairman