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Re: Discussion Paper – Accounting for Variable Consideration from a purchaser's perspective

Dear Wolf,

We are pleased to have the opportunity to provide our comments on the EFRAG Discussion Paper on Accounting for Variable Consideration from a purchaser's perspective issued by EFRAG on September 2022 (the 'DP').

The accounting for variable consideration is an important and complex issue where divergence in practice still exists. We therefore suggest that EFRAG ask the IASB to include the project in its work plan given the relevance of the topic addressed and the research activity already carried out by EFRAG.

In general, we appreciate the effort of EFRAG to rationalize throughout the DP a so complex issue. On the various approaches proposed in the DP we have the following observations.

Initial recognition of a liability

Regarding the initial recognition of a liability for variable consideration we believe that Alternative 1 (ie recognising a liability when the purchaser obtains control of the asset acquired) provides useful information about the liabilities to which the purchaser is exposed and is consistent with IFRS 3 and IFRS 15.

However, Alternative 1 is more complex than Alternative 2 (ie recognising a liability when the purchaser performs the actions that trigger the variable consideration) because Alternative 1 requires to estimate the variable consideration and it could be inconsistent with the concept of "incurred cost" of the Conceptual Framework. To solve this problem, a possible solution could be to elaborate an accounting model where an entity recognises a liability for variable consideration only if it is probable that the trigger event happens.

Measurement of acquired asset

Regarding the measurement of the acquired asset, we believe that:

- Alternative 1 (ie not updating the cost estimate), even if it is consistent with IFRS 3, could create volatility in profit or loss without conveying relevant information
- Alternative 2 (ie updating the cost to reflect all subsequent changes in estimates of variable consideration), would provide useful information, namely the final amount of cash paid to acquire an asset;
- Alternative 3 (sometimes updating the cost of an asset) is the most complex approach thus more field testing would be needed to understand the possible impacts.

Finally, we note that the Equity Method project of the IASB may have a number of points of contacts with the issue investigated in the EFRAG DP. On the IASB project we observe that recently tentatively it was decided that:

- on the acquisition of an investment in an associate, an investor would recognise contingent consideration as part of the cost of the investment and measure that contingent consideration at fair value (as Alternative 1 in the DP for the recognition of the liability); and
- after the acquisition date an investor would recognise changes in a liability for contingent consideration in profit or loss (as Alternative 1 in the DP for the measurement of the acquired asset).

We question whether these decisions, if agreed, may also be applied to investments measured at cost in separate financial statements since cost plays an important role also in measuring investments at equity method. Although we have not yet formed a view on this IASB decision, we believe that EFRAG should monitor the developments of the IASB project on Equity Method also in the light of solving at least part of the issues raised in the DP on variable considerations.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,
Michele Pizzo
(OIC President of the Board of Directors)