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Berlin, xx March 2023

Dear Mr Klinz,

EFRAG Discussion Paper *Accounting for variable considerations*

On behalf of the Accounting Standards Committee of Germany, I am writing to comment on EFRAGs Discussion Paper *Accounting for variable considerations* (herein referred to as the 'DP') and thereby contributing to the discussion of this issue as initiated by EFRAG.

General findings

The accounting for variable considerations (herein referred to as 'Avacon') is of great impact and the aspects to be considered are complex. Although EFRAG sets out many details, we consider the DP to not being exhaustive. It appears incomplete that for liabilities only the (timing of) recognition, but not measurement questions are brought up for discussion. Also, it seems that for assets mainly the measurement issue is addressed, but not the (timing of) recognition.

Due to the complexity – and bearing in mind previous debates and conclusions of the IFRS IC, which highlighted that this topic is broad and requires intensive discussion – we consider a public discussion on the "Avacon" topic currently not being appropriate. Rather, the crucial factor is whether and when the IASB itself takes up this issue. As the IASB does not (or no longer) have this topic on its agenda as a result of the 2021 agenda consultation, and as currently other topics have a higher priority for many stakeholders, we would refrain from intensifying the discussion about "Avacon" at the moment.

Chapter 1: Background and scope

Beyond the above, we have no further comments as regards background and scope.

Chapter 2 / Questions 1 & 2: Recognition of a liability

Among the two proposed alternatives – alternative 1 being the recognition of a liability as soon as the acquirer has control over the acquired asset, and alternative 2 being the recognition of a liability only when the acquirer undertakes the activity that triggers the variable consideration – we think the first is an economic approach, whereas the second is a rather formal one. Following an economic approach, which is based on economic compulsion (as is alternative 1), appears understandable but not operationalizable. If economic compulsion were the crucial criterion, there is (too) much room for judgement. This would hamper alternative 1.

Conceptually, it would be difficult if the acquirer were to determine and decide at the time of acquisition ***whether or not*** a future event (triggering the additional consideration) would occur, rather than considering the ***probability*** of its occurrence. This too would impede alternative 1.

Chapter 3 / Questions 3 & 4: Measurement of the asset

Overall, it seems difficult to prefer one of the alternatives as regards measurement of the asset.

Considering the requirements for business combinations where variable payment components are taken into account from the very beginning, and later adjustment are presented for in profit or loss – would rather support alternative 1.

Regarding EFRAG's alternative 2 and the criteria proposed by EFRAG, we emphasise that any such criteria add new additional complexity and make up much leeway, thus leading to potential uncertainty and inconsistency.

The DP adresses the interdependency between the effect of variable consideration on the liability and on the asset side on which we basically agree. We are convinced that it is only appropriate if both items, the asset and the liability, were treated congruently (ie. both be adjusted subsequently, or none of the two). Though, it seems that EFRAG does not draw this conclusion in considering alternative 1 vs. alternative 2.

Finally, we like to note that given the liability amount being subsequently adjusted for variable considerations, the question of adjusting or not adjusting the original effective interest rate arises, and deserves clarification – which EFRAG does not consider in the DP.

Chapter 4 / Questions 5 & 6: Standard-setting implications

Given the perceived inconsistencies within the IFRSs as a whole (including the Conceptual Framework), creating overarching principles – as a conceptual approach – would be very comprehensive and complex. In this respect, a standard-specific review appears more pragmatic.

Finally, we like to touch on the proposal for an IFRS 15 mirroring approach. In brief, we note that this approach does not seem useful as under IFRS 15 variable (ie. subsequent) considerations are only recognised subsequently – rather than being taken into account at intial recognition.

If you would like to discuss our comments further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President