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Defining variable and contingent consideration Cover Note

Objective

- 1 The objective of this session is for EFRAG TEG to decide a preliminary definition on variable and contingent consideration and to decide on whether further activities are needed by the EFRAG Secretariat in this regard.

Background

- 2 At the March 2019 EFRAG TEG meeting, members concluded that the definition of 'variable and contingent consideration' should be further discussed.
- 3 A temporary definition of variable and contingent consideration was put forward by the EFRAG Secretariat and was discussed at the May 2019 EFRAG TEG meeting. It was suggested by the EFRAG Secretariat as a temporary definition until the definition of variable and contingent consideration could be further discussed.
- 4 Since the May 2019 EFRAG TEG meeting, based on some of the comments made by EFRAG TEG members and on the basis of additional analysis conducted, the EFRAG Secretariat is now suggesting some changes to the definition of variable and contingent consideration.

Scope of the project and history

- 5 The EFRAG Board discussed an initial project plan at its meetings in September and October 2018. The following project aims were identified:
 - (a) to identify the accounting issues around variable and contingent consideration;
 - (b) to outline the information needs for users of financial statements in regard to variable and contingent considerations based on the objectives of general-purpose financial reporting in the IASB's *Conceptual Framework for Financial Reporting* and consultation with the EFRAG User Panel;
 - (c) to summarise and compare the requirements in IFRS Standards and assess the rationale (or lack thereof) for any differences;
 - (d) to develop a number of accounting alternatives and illustrate their relevant strengths and limitations; and
 - (e) to consider improvements in presentation and disclosure.
- 6 In December 2018, EFRAG User Panel members discussed variable and contingent consideration and members of the EFRAG User Panel generally supported a comprehensive and consistent approach to variable and contingent consideration.

Previous EFRAG TEG discussions

- 7 In March 2019, EFRAG TEG discussed the scope of the project, related issues, some practical cases and what information users need about existence, uncertainty and being subject to change of variable and contingent consideration. Members suggested to clearly define the issues, including what was meant by 'cost', the difference between 'variable' and 'contingent', and whether the measurement was related to the 'asset' or the 'contract'.
- 8 In its meeting in May 2019, EFRAG TEG discussed accounting issues and accounting guidance related to variable and contingent consideration. Members identified additional situations under which variable and contingent consideration arises in practice. In addition, it was suggested that the effects of the change in the definition of a liability in the Conceptual Framework (the meaning of 'practical ability to avoid') was an issue that should be considered in the project. Furthermore, EFRAG TEG members identified additional accounting guidance to be considered.
- 9 At the July 2019 EFRAG TEG-CFSS meeting, Andrew Lennard (*UK Financial Reporting Council*), presented the paper: *An Initial conceptual exploration* including an analysis on variable and contingent consideration.

Current and future steps

- 10 The next steps in the project will be to:
 - (a) define 'variable and contingent consideration' (this session); and
 - (b) consider the scope of the project.

Agenda Papers

- 11 In addition to this cover note, agenda paper 01-02 – *Issues Paper on Defining variable and contingent consideration* – has been provided for the session.