

## **EFRAG research project on variable and contingent consideration Cover Note**

### **Objective of the session**

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

### **Background**

- 2 In many transactions, the exchange price is not a fixed amount and could vary depending on financial and non-financial conditions that could include usage, performance, rate or index, future milestones or other events. Some of these factors are under the control of the management and others are not.
- 3 Variable and contingent consideration is found in a broad range of transactions including:
  - (a) purchases and sales of tangible and intangible assets;
  - (b) purchases and sales of goods or services;
  - (c) leases;
  - (d) share-based payments;
  - (e) pensions and other employee benefits; and
  - (f) financial instruments.
- 4 Over some time, the IFRS Interpretation Committee debated a submission about initial recognition and subsequent measurement of variable consideration on the acquisition of tangible and intangible assets but eventually the Interpretation Committee declined to address the submission. The Committee considered that the issue was too broad to approach. However, in response to the feedback received on the 2015 IASB Agenda Consultation, the IASB decided to add the variable and contingent consideration project to his research pipeline.

### *Scope of the project and history*

- 5 In August 2018, following the input received from constituents in response to the EFRAG Research Agenda Consultation, the EFRAG Board approved to add a project on variable and contingent consideration to EFRAG's research agenda. 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 what are the information needs for users of financial statements in regard to variable and contingent payments based on the objectives of general-purpose financial reporting as stated in the IASB's revised *Conceptual Framework for Financial Reporting* and consultation with the EFRAG User Panel;

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- (c) to summarise and compare the guidance across different IFRS Standards and assess the rationale (or lack thereof) for differences in the requirements;
  - (d) to develop a number of accounting alternatives and illustrate the relevant strengths and limitations; and
  - (e) to consider improvements in presentation and disclosure.
- 6 In December 2018, the EFRAG User Panel members discussed variable and contingent consideration and members of the EFRAG User Panel generally agreed that a comprehensive and consistent approach to variable and contingent consideration would be preferable.

### *Past EFRAG TEG discussions*

- 7 In March 2019, the EFRAG TEG discussed the scope and the issues of the project, some practical cases and what information users need about the existence, uncertainty and variability of variable and contingent consideration. Members suggested to clearly define the problem, including what was meant by 'cost', the difference between 'variable' and 'contingent', and whether the measurement was related to the 'asset' or the 'contract'. In accordance with the proposal of the EFRAG Secretariat, EFRAG TEG also supported identifying inconsistencies across current IFRS Standards – even if the scope of any recommendations would not cover all IFRS Standards. The EFRAG Secretariat was similarly instructed to contact audit firms in order to establish an inventory of the issues experienced by audit firms.

### *Current and future steps*

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

### **Agenda Papers**

- 9 In addition to this cover note, agenda paper 07-02 – *Issues paper on identification of issues related to variable and contingent consideration* – has been provided for the session.