
IASB[®] meeting

Date	April 2024
Project	Payments Contingent on Continued Employment during Handover Periods (IFRS 3)
Topic	Finalisation of agenda decision
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Purpose of the meeting

1. At its March 2024 meeting, the IFRS Interpretations Committee (Committee) decided not to add a standard-setting project to the work plan in response to a submission about how, applying IFRS 3 *Business Combinations*, an entity accounts for payments to the sellers of a business it has acquired if those payments are contingent on the sellers' continued employment during a post-acquisition handover period. The Committee instead decided to finalise an agenda decision.
2. The purpose of this meeting is to ask the International Accounting Standards Board (IASB) members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation [Due Process Handbook](#).

Background

3. In the fact pattern described in the submission:
 - (a) an entity acquires a business and, as part of the acquisition agreement, requires the sellers to continue as employees of the acquired business. The sellers' continued employment is to ensure the appropriate transfer of knowledge from the sellers to the new management team (handover of the business).

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- (b) the sellers are compensated for their services at a level comparable to other management executives. The entity also agrees to make additional payments to the sellers contingent upon both the performance of the acquired business and, as described below, the continued employment of the sellers for a limited period after the acquisition to complete the handover of the business.
- (c) the sellers are entitled to receive the additional payments if their employment is terminated due to specified circumstances—such as death or disability—or with the entity's agreement. The sellers forfeit the additional payments if their employment is terminated in any other circumstance.
4. Upon receiving the submission, we sent an information request to members of the International Forum of Accounting Standard Setters, securities regulators and large accounting firms. The responses to the information request indicated no significant diversity in the accounting for payments contingent upon continued employment in fact patterns such as that described in the submission. In these fact patterns, entities apply the accounting described in the Agenda Decision [Continuing employment \(IFRS 3 Business Combinations\)](#) published in January 2013 (January 2013 agenda decision) and account for the payments as compensation for post-combination services rather than as additional consideration for the acquisition, unless the service condition is not substantive.
5. Consequently, in September 2023, the Committee decided to publish a [tentative agenda decision](#), having concluded that the matter described in the request does not meet the criteria for adding a standard-setting project to the work plan set out in paragraph 5.16 of the *Due Process Handbook*. In particular, because the Committee obtained no evidence of significant diversity in accounting, it concluded that the matter does not have widespread effect, and therefore that the matter fails to meet the criterion in sub-paragraph 5.16(a) of the *Due Process Handbook*.

Feedback on the tentative agenda decision

6. The Committee received 11 comment letters on its tentative agenda decision by the comment letter deadline.¹ [Agenda Paper 3](#) for the Committee's March 2024 meeting (March 2024 Committee paper) summarises the comments and sets out our analysis of those comments.
7. Most respondents agreed (or did not disagree) with the Committee's decision not to add a standard-setting project to the work plan for the reasons set out in the tentative agenda decision. Furthermore, feedback on the tentative agenda decision:
- (a) indicated no significant diversity in the accounting for payments contingent upon continued employment in fact patterns such as that described in the submission; and
 - (b) confirmed that, in these fact patterns, entities apply the accounting described in the January 2013 agenda decision.
8. However, some respondents expressed concerns about the outcome of applying the accounting described in the January 2013 agenda decision in some situations. These respondents disagreed with the Committee's decision because, in their view, the IASB should reconsider the requirement in paragraph B55(a) of IFRS 3 *Business Combinations*.² These respondents say:
- (a) the requirement in paragraph B55(a) of IFRS 3 is 'rule-based'. They say it could result in outcomes that do not faithfully reflect the economic substance of the arrangement—and, therefore, in information that is not useful to users of financial statements.
 - (b) whether payments in a contingent consideration arrangement are automatically forfeited if employment terminates should not be conclusive of whether the remuneration is for post-combination services, but rather an indicator that an

¹ At the date of posting this agenda paper, there was one late comment letter.

² Respondents refer to the statement, in paragraph B55(a) of IFRS 3, that 'a contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services.'

entity considers. In those respondents' view, an entity should consider that indicator along with the other indicators included in paragraph B55(a)–(h) of IFRS 3.

9. Paragraphs 13–21 of the March 2024 Committee paper include further details about respondents' comments and our analysis of these comments. Among other things, we explain in our analysis that:
- (a) the IASB considered concerns such as those raised by respondents during the post-implementation review of IFRS 3. The IASB assessed the issue as being of low significance but said that depending on the feedback received from the 2015 Agenda Consultation, it could start working on this matter (for example, by investigating in which circumstances these payments should be considered as consideration transferred in the acquisition).³
 - (b) the IASB did not identify this matter as a high priority in its 2015 Agenda Consultation or the recently completed Third Agenda Consultation.

The Committee's discussion and conclusion

10. The Committee considered this feedback at its March 2024 meeting. The Committee confirmed its conclusion that the matter described in the request does not have widespread effect and decided not to add a standard-setting project to the work plan.
11. The Committee made no significant changes to the wording of the tentative agenda decision. The appendix to this paper includes the wording of the agenda decision approved by the Committee.
12. All 13 Committee members present voted to finalise the agenda decision.

³ See page 26 of the [report and feedback statement](#) for the Post-implementation Review of IFRS 3.

Questions for the IASB

Do you object to the Committee's:

- a. decision not to add a standard-setting project to the work plan?
- b. conclusion that the agenda decision does not add or change requirements in IFRS Accounting Standards?

Appendix—the agenda decision

A1. The agenda decision below was approved by the Committee at its March 2024 meeting.

Payments Contingent on Continued Employment during Handover Periods (IFRS 3 *Business Combinations*)

The Committee received a request about how an entity accounts for payments to the sellers of a business it has acquired if those payments are contingent on the sellers' continued employment during a post-acquisition handover period.

Fact pattern

In the fact pattern described in the request:

- (a) an entity acquires a business and, as part of the acquisition agreement, requires the sellers to continue as employees of the acquired business. The sellers' continued employment is to ensure the appropriate transfer of knowledge from the sellers to the new management team (handover of the business).
- (b) the sellers are compensated for their services at a level comparable to other management executives. The entity also agrees to make additional payments to the sellers contingent upon both the performance of the acquired business and, as described below, the continued employment of the sellers for a limited period after the acquisition to complete the handover of the business.
- (c) the sellers are entitled to receive the additional payments if their employment is terminated due to specified circumstances—such as death or disability—or with the entity's agreement. The sellers forfeit the additional payments if their employment is terminated in any other circumstance.

Findings

Evidence gathered by the Committee indicated no significant diversity in the accounting for payments contingent upon continued employment in fact patterns such as that described in the request. In these fact patterns, entities apply the accounting described in the Agenda Decision [Continuing employment \(IFRS 3 *Business Combinations*\)](#),

published in January 2013, and account for the payments as compensation for post-combination services rather than as additional consideration for the acquisition, unless the service condition is not substantive.

Conclusion

Based on its findings, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee decided not to add a standard-setting project to the work plan.