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## **Variable and Contingent Consideration Cover Note**

### **Objective**

- 1 The objective of this session is for EFRAG TEG to:
  - (a) Receive a presentation from Andrew Lennard on the FRC research project on variable and contingent consideration ('VCC'). Neither the FRC nor EFRAG have made any decisions on the form of any future publication—in particular whether it would be a joint FRC/EFRAG paper, or two separate outputs, or something else. The presentation will allow EFRAG TEG members to consider how EFRAG's project on VCC could contribute to or complement the FRC research project.
  - (b) Consider how variable and contingent consideration should be defined for the purpose of the EFRAG project.
  - (c) Consider the scope of EFRAG's VCC project taking into account the definition of variable and contingent consideration and the FRC's work on variable and contingent consideration.

### **Project objectives**

- 2 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.
- 3 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 accounting for variable and contingent consideration.

### Previous EFRAG TEG discussions

- 4 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 clearly defining 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'.
- 5 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.
- 6 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.
- 7 At its meeting in September 2019, EFRAG TEG discussed the changes to the definition of variable and contingent consideration proposed by the EFRAG Secretariat, and they made the following suggestions:
  - (a) to only consider variable consideration in this stage of the project, leaving contingent consideration for a later stage;
  - (b) to exclude financing elements and functional currency of the transaction from the scope of the project;
  - (c) to define variable consideration as excluding legal contracts involving fixed amounts; and
  - (d) to consider later in the project whether to address remeasurement where settlement of the contract is deferred.

### Current and future steps

- 8 The next steps in the project will be to:
  - (a) discuss how the EFRAG research project could contribute, complement and not duplicate the FRC research project (this session);
  - (b) consider the scope of the project (this and future sessions), considering:
    - (i) how different approaches of defining variable and contingent consideration affects how the project can be scoped; and
    - (ii) how the project could interact with the FRC's project on variable and contingent consideration; and
  - (c) discuss a conceptual model of variable consideration.

### Agenda Papers

- 9 In addition to this cover note, agenda papers for this session are:
  - (a) Agenda paper 14-02 – *FRC's Presentation*;
  - (b) Agenda paper 14-03 – *FRC's Working Draft paper*; and
  - (c) Agenda paper 14-04 – *Issues paper on the implications of various definitions of variable and contingent consideration*.