

## **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.