

IFRS 3 *Business Combinations* (January 2013)

Contingent payments to shareholders and continuing employment

The Interpretations Committee received a request for guidance on the accounting in accordance with IFRS 3 *Business Combinations* for contingent payments to selling shareholders in circumstances in which those selling shareholders become, or continue as, employees. The submitter asked the Interpretations Committee to clarify whether paragraph B55(a) of IFRS 3 is conclusive in determining that payments to an employee that are forfeited upon termination of employment are remuneration for post-combination services and not part of the consideration for an acquisition. The question arose because the submitter asserted that paragraph B55 introduces subparagraphs (a)–(h) as indicators, but paragraph B55(a) uses conclusive language stating that the arrangement described is remuneration for post-combination services.

The Interpretations Committee observed that an arrangement in which contingent payments are automatically forfeited if employment terminates would lead to a conclusion that the arrangement is compensation for post combination services rather than additional consideration for an acquisition, unless the service condition is not substantive. The Interpretations Committee reached this conclusion on the basis of the conclusive language used in paragraph B55(a) of IFRS 3. The Interpretations Committee also noted that IFRS 3 is part of the joint effort by the IASB and the US-based Financial Accounting Standards Board (FASB) to promote the convergence of accounting standards. The Interpretations Committee was advised that the Post-implementation Review of FASB Statement No. 141R *Business Combinations* is in progress, and that the opportunity to co-ordinate any work on this issue with the FASB would arise after the conclusion of the Post-implementation Review of FASB Statement No. 141R. Consequently, the Interpretations Committee decided not to add this issue to its agenda at this time and to revisit this issue after completion of the Post-implementation Review of FASB Statement No. 141R.