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IFRS® Standards

Reference to the Conceptual Framework

Amendments to IFRS 3

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Reference to the Conceptual Framework

Amendments to IFRS 3

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Amendments to IFRS 3 *Business Combinations*

Paragraph 11 is amended and the footnote to *Framework for the Preparation and Presentation of Financial Statements* in paragraph 11 is deleted. Paragraphs 14, 21, 22 and 23 are amended and paragraphs 21A, 21B, 21C, 23A and 64Q are added. A heading is added above paragraph 21A and the headings below paragraph 21 and above paragraph 22 are amended. New text is underlined and deleted text is struck through. Paragraph 10 is unamended but is included for ease of reference.

The acquisition method

...

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Recognition principle

10 **As of the acquisition date, the acquirer shall recognise, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 11 and 12.**

Recognition conditions

11 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the ~~*Framework for the Preparation and Presentation of Financial Statements*[*]~~ *Conceptual Framework for Financial Reporting* at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other IFRSs.

~~*~~ ~~For this Standard, acquirers are required to apply the definitions of an asset and a liability and supporting guidance in the IASC's *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB in 2001 rather than the *Conceptual Framework for Financial Reporting* issued in 2018.~~

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14 Paragraphs B31–B40 provide guidance on recognising intangible assets. Paragraphs ~~22~~21A–28B specify the types of identifiable assets and liabilities that include items for which this IFRS provides limited exceptions to the recognition principle and conditions.

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Exceptions to the recognition or measurement principles

21 This IFRS provides limited exceptions to its recognition and measurement principles. Paragraphs ~~22~~21A–31A specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs ~~22~~21A–31A, which will result in some items being:

(a) recognised either by applying recognition conditions in addition to those in paragraphs 11 and 12 or by applying the requirements of other IFRSs, with results that differ from applying the recognition principle and conditions.

(b) measured at an amount other than their acquisition-date fair values.

~~Exception~~ Exceptions to the recognition principle

Liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21

21A Paragraph 21B applies to liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies* if they were incurred separately rather than assumed in a business combination.

21B The *Conceptual Framework for Financial Reporting* defines a liability as 'a present obligation of the entity to transfer an economic resource as a result of past events'. For a provision or contingent liability that would be within the scope of IAS 37, the acquirer shall apply paragraphs 15–22 of IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21, the acquirer shall apply IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

21C A present obligation identified in accordance with paragraph 21B might meet the definition of a contingent liability set out in paragraph 22(b). If so, paragraph 23 applies to that contingent liability.

Contingent liabilities and contingent assets

22 IAS 37 ~~*Provisions, Contingent Liabilities and Contingent Assets*~~ defines a contingent liability as:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

23 ~~The requirements in IAS 37 do not apply in determining which contingent liabilities to recognise as of the acquisition date. Instead, the~~ The acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to paragraphs 14(b), 23, 27, 29 and 30 of IAS 37, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Paragraph 56 of this IFRS provides guidance on the subsequent accounting for contingent liabilities.

23A IAS 37 defines a contingent asset as 'a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity'. The acquirer shall not recognise a contingent asset at the acquisition date.

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Effective date and transition

Effective date

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64Q *Reference to the Conceptual Framework*, issued in May 2020, amended paragraphs 11, 14, 21, 22 and 23 and added paragraphs 21A, 21B, 21C and 23A. An entity shall apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted if at the same time or earlier an entity also applies all the amendments made by *Amendments to References to the Conceptual Framework in IFRS Standards*, issued in March 2018.

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Approval by the Board of *Reference to the Conceptual Framework* issued in May 2020

Reference to the Conceptual Framework, which amended IFRS 3, was approved for issue by all 14 members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Tadeu Cendon	
Martin Edelmann	
Françoise Flores	
Gary Kabureck	
Jianqiao Lu	
Darrel Scott	
Thomas Scott	
Chungwoo Suh	
Rika Suzuki	
Ann Tarca	
Mary Tokar	

Amendments to the Basis for Conclusions on IFRS 3 *Business Combinations*

Paragraphs BC114A–BC114B are amended and paragraphs BC114C–BC114D are added. Paragraph BC125 and the heading above it are deleted. Paragraphs BC264A-BE264E and a heading above paragraph BC264A are added. A heading below paragraph BC264 and a heading above paragraph BC265 are amended. The heading above paragraph BC276 is amended and paragraphs BC276A–BC276B are added. Paragraphs BC434G–BC434H are added and a heading is added above paragraph BC434G. New text is underlined and deleted text is struck through.

Applying the acquisition method

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Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Recognition

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Conditions for recognition

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An asset or a liability at the acquisition date

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BC114A Paragraph 11 of IFRS 3 ~~contains references~~ referred to the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements* (*Framework*). It ~~requires~~ required those definitions to be used when deciding whether to recognise assets and liabilities as part of a business combination. In developing the revised *Conceptual Framework for Financial Reporting*, issued in 2018 (2018 *Conceptual Framework*), the IASB considered whether it should replace ~~those references~~ that reference with ~~references~~ a reference to the revised definitions in the 2018 *Conceptual Framework*. In some cases, applying the revised definitions could change which assets and liabilities qualify for recognition in a business combination. In some such cases, the post-acquisition accounting required by other IFRS Standards could then lead to immediate derecognition of assets or liabilities recognised in a business combination, resulting in so-called *Day 2 gains or losses* that do not depict an economic gain or loss.

BC114B Although the IASB intended to replace all references to the *Framework* with references to the 2018 *Conceptual Framework*, the IASB did not intend to make significant changes to the requirements of IFRS Standards containing those references. Consequently, the IASB decided to retain the reference to the *Framework* in paragraph 11 of IFRS 3 until it ~~completes~~ had completed an

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analysis of the possible consequences of referring in that paragraph to the revised definitions of an asset and a liability. ~~Once that analysis is complete, the IASB intends to amend IFRS 3 to replace the reference to the *Framework* in a way that avoids unintended consequences, such as *Day 2 gains or losses*.~~

BC114C The IASB's analysis led it to conclude that the problem of *Day 2 gains or losses* would be significant in practice only for liabilities that an acquirer accounts for after the acquisition date by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*. To avoid the problem, the IASB decided to add a further exception to the recognition principle in IFRS 3. The reasons for making this exception are explained in paragraphs BC264A–BC264E. The IASB noted that adding this exception to the recognition principle would not only avoid *Day 2 gains or losses*; it would also avoid any changes to the assets and liabilities recognised in a business combination ahead of any future amendments to align IAS 37 and IFRIC 21 with the 2018 *Conceptual Framework*.

BC114D The IASB replaced the reference to the *Framework* and added the exception to its recognition principle in May 2020. At the same time, the IASB made two other amendments to clarify aspects of IFRS 3 that it concluded would not be affected by replacing the reference to the *Framework*:

(a) the IASB added paragraph 23A to IFRS 3 to clarify the requirements for contingent assets—that is, possible assets whose existence is uncertain. IFRS 3 prohibits the recognition of contingent assets acquired in a business combination. This prohibition can be inferred from the recognition principle and is confirmed in paragraph BC276 of this Basis for Conclusions. However, the prohibition was not stated explicitly in IFRS 3 itself, and questions arose as to how it would be affected by replacing the reference to the *Framework*. The IASB concluded it would be unaffected—the 2018 *Conceptual Framework* specifies criteria for recognising assets and liabilities, and paragraph 5.14 says that these criteria might not be met if it is uncertain whether an asset exists. The IASB added paragraph 23A to IFRS 3 to make its requirements for contingent assets explicit and clarify that replacing the reference to the *Framework* does not change them.

(b) the IASB deleted paragraph BC125 from this Basis for Conclusions. In applying any IFRS Standard, an entity should apply only the recognition criteria specified in that Standard. However, paragraph BC125 referred to the *Framework* in a way that could be read to mean that, in applying IFRS 3, an acquirer of a business should apply both the recognition criteria specified in IFRS 3 and other recognition criteria discussed in the *Framework*. The IASB deleted paragraph BC125 because of its potential to cause misunderstanding. The IASB does not usually amend the basis for its previous conclusions, but decided that, in this instance, the importance of reducing the risk of misunderstanding warranted the deletion.

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~~IFRS 3's criterion on reliability of measurement~~

BC125 [Deleted][*]

[*] See paragraph BC114D(b).

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Exceptions to the recognition or measurement principle

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~~Exception~~ Exceptions to the recognition principle

Liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21 (paragraphs 21A–21C)

BC264A Paragraph 11 of IFRS 3 specifies that, to qualify for recognition at the acquisition date, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the 2018 *Conceptual Framework*. Paragraph 54 of IFRS 3 specifies that after the acquisition date, an entity generally accounts for those assets and liabilities in accordance with other applicable IFRS Standards for those items.

BC264B As a result of applying the definition of a liability in the 2018 *Conceptual Framework*, an acquirer might recognise at the acquisition date a liability to pay a levy that it would not recognise subsequently when applying IFRIC 21 *Levies*. This difference arises because an entity might recognise a liability earlier applying the 2018 *Conceptual Framework*. Applying IFRIC 21, an entity recognises a liability to pay a levy only when it conducts the activity that triggers the payment of the levy, whereas applying the 2018 *Conceptual Framework*, an entity recognises a liability when it conducts an earlier activity if:

(a) conducting that earlier activity means the entity may have to pay a levy it would not otherwise have had to pay; and

(b) the entity has no practical ability to avoid the later activity that will trigger payment of the levy.

BC264C If an acquirer recognised a liability to pay a levy at the acquisition date when applying the 2018 *Conceptual Framework* and derecognised the liability immediately afterwards when applying IFRIC 21, it would recognise a so-called *Day 2 gain*. This recognised gain would not depict an economic gain, so would not faithfully represent any aspect of the entity's financial performance.

BC264D The IASB noted that IFRIC 21 is an interpretation of IAS 37, and so concluded that the problem of *Day 2 gains* could arise not only for levies within the scope of IFRIC 21 but also for other obligations within the scope of IAS 37. To avoid this problem, the IASB added paragraph 21B to IFRS 3. This paragraph makes an exception from the requirements of paragraph 11 for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if incurred separately, rather than assumed in a business combination. The exception requires an entity to apply criteria in IAS 37 or IFRIC 21 respectively to determine whether a present obligation exists at the acquisition date. The

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exception refers to IFRIC 21 as well as IAS 37 because, although IFRIC 21 is an interpretation of IAS 37, it also applies to levies whose timing and amount are certain and so are outside the scope of IAS 37.

BC264E A present obligation identified applying the exception in paragraph 21B of IFRS 3 might meet the definition of a contingent liability. This will be the case if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or if the amount of the obligation cannot be measured with sufficient reliability. The IASB added paragraph 21C to IFRS 3 to clarify that, if the present obligation identified applying paragraph 21B meets the definition of a contingent liability, paragraph 23 of IFRS 3 also applies to that contingent liability.

Assets and liabilities arising from contingencies (paragraphs 22–23A)

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The IASB's conclusions on contingent liabilities and contingent assets

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BC276A In May 2020 the IASB added paragraph 23A to IFRS 3 to clarify the requirements for contingent assets. This amendment is explained further in paragraph BC114D(a).

BC276B The requirements for recognising contingent liabilities and contingent assets include both applications of and exceptions to the recognition principle. The IASB located all these requirements in the section headed 'exceptions to the recognition principle' because it concluded the requirements are clearest if they are all located together.

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Effective date and transition

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Amendments issued in May 2020

BC434G *Reference to the Conceptual Framework*, issued in May 2020, updated paragraph 11 of IFRS 3, replacing a reference to the *Framework* with a reference to the 2018 *Conceptual Framework*. It made further amendments to avoid unintended consequences of updating the reference.

BC434H Paragraph 64Q of IFRS 3 requires an entity to apply these amendments prospectively. It also permits an entity to apply the amendments before their effective date, without disclosing that it has done so. The IASB concluded that no significant benefits would be gained from requiring either retrospective application or disclosure of early application. The IASB reached this conclusion because it did not expect the amendments to change significantly the population of assets and liabilities recognised in a business combination.

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