



**IASB proposes to update  
references to the  
Conceptual Framework  
in IFRS 3**

This *Edition* addresses the proposed amendments to IFRS 3 *Business Combinations* set out in Exposure Draft ED/2019/3 *Reference to the Conceptual Framework (Proposed amendments to IFRS 3)* (the 'ED') that has been published by the International Accounting Standards Board (IASB) in May 2019.

- The proposed amendments, if finalized, would replace the reference in IFRS 3 to the 1989 Framework with a reference to the 2018 *Conceptual Framework*
- An exception is proposed for liabilities and contingent liabilities that would be in the scope of IAS 37 or IFRIC 21 if acquired separately. For these, the acquirer would apply IAS 37 or IFRIC 21 (instead of the 2018 *Conceptual Framework*) to identify the obligations assumed in a business combination
- The proposed amendments would clarify that contingent assets should not be recognized when acquired in a business combination
- It is proposed that an entity applies the amendments to business combinations for which the acquisition date is on or after the beginning of the annual period in which the entity first applies the amendments
- The effective date for the amendment will be set after the comment period ends
- Comments on the proposals are requested by 27 September 2019

## Background

IFRS 3 specifies that assets and liabilities recognised in a business combination must meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements* issued in 1989 (*1989 Framework*). Unlike other IFRS Standards, the references in IFRS 3 have not been updated. This is because the definitions of assets and liabilities in the 2018 *Conceptual Framework* are broader than in the 1989 *Framework* and updating the references might have resulted in additional assets and liabilities being recognised in a business combination. This effect is undesirable as these assets and liabilities may not meet the recognition criteria of other Standards, which are to be applied following the business combination. This would result in derecognition and a 'Day 2' gain or loss that would not depict an economic loss or gain.

## Observation

The IASB concluded that the problem of broadening the population of assets and liabilities would only arise for transactions and other events that are in the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*. Consequently, the IASB has focused on these requirements in their proposals to prevent the recognition of additional liabilities.

## The proposed amendments

The IASB is proposing three amendments to IFRS 3:

1. To remove the reference to the 1989 *Framework* and replace it with a reference to the current version—the 2018 *Conceptual Framework*.
2. To add a requirement to IFRS 3 that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer should apply IAS 37 or IFRIC 21 respectively (instead of the *Conceptual Framework*) to identify the liabilities it has assumed in a business combination. This additional requirement would ensure that the liabilities recognised in a business combination would remain the same as those recognised applying the current requirements in IFRS 3.
3. To explicitly state that contingent assets acquired in a business combination should not be recognised by an acquirer. This is to avoid any doubt about whether updating the reference to the *Conceptual Framework* would change the existing requirements.

## Transitional provisions, effective date and comment period

The IASB proposes that an entity applies the amendments to business combinations for which the acquisition date is on or after the beginning of the annual period in which the entity first applies the amendments. The amendments would be applied prospectively and no restatement of past business combinations would be required.

The ED does not propose an effective date. The IASB will set the effective date for the amendments after the comment period ends. Application of the amendments before the effective date is proposed to be permitted.

The IASB requests comments on the ED by 27 September 2019.

## Further information

If you have any questions about the amendments to the definition of material, please speak to your usual Deloitte contact or get in touch with a contact identified in this *IFRS in Focus*



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