

STAFF PAPER

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IASB® meeting

Project	Reference to the <i>Conceptual Framework</i> (Amendments to IFRS 3)		
Paper topic	Transition, effective date and due process		
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Purpose of session

1. In May 2019, the International Accounting Standards Board (Board) published the [Exposure Draft Reference to the Conceptual Framework](#) (Exposure Draft), which proposed amendments to IFRS 3 *Business Combinations*.
2. The purpose of this session is to:
 - (a) discuss feedback on the proposals for transition and early application (paragraphs 3–15); and
 - (b) complete the due process for the project and decide whether the staff can begin the process of balloting amendments to IFRS 3 (paragraphs 16–34).

Transition and early application***Exposure Draft proposals***

3. In the Exposure Draft, the Board proposed three amendments to IFRS 3:

- (a) to update the recognition principle in IFRS 3, so it refers to the *Conceptual Framework for Financial Reporting* issued in March 2018 (2018 *Conceptual Framework*) instead of the *Framework for the Preparation and Presentation of Financial Statements* issued in 1989 (1989 *Framework*).
 - (b) to add to IFRS 3 an exception to its recognition principle. The exception would apply 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 incurred separately.
 - (c) to add to IFRS 3 an explicit statement that an acquirer should not recognise contingent assets acquired in a business combination.
4. The Exposure Draft further proposed:
- (a) to require an entity to apply the amendments prospectively, that is to business combinations for which the acquisition date is on or after the beginning of the annual reporting period in which the amendments become effective;
 - (b) to permit an entity to apply the amendments earlier if at the same time the entity also applies all the amendments made by *Amendments to References to the Conceptual Framework in IFRS Standards*; and
 - (c) *not* to require an entity that applies the amendments early to disclose that it has done so.
5. In the Basis for Conclusions on the Exposure Draft, the Board explained its conclusion that no significant benefits would be gained from requiring entities to apply the proposed amendments retrospectively. The proposed amendments would not be expected to change significantly the population of assets and liabilities recognised in a business combination, so applying the amendments retrospectively would result in no significant adjustments to assets and liabilities previously recognised. Preparers of financial statements would have to incur additional costs to apply the amendments retrospectively, even if only to prove that no material adjustments were required, and these costs would not be justified without additional benefits.

6. The Exposure Draft did not propose any transition arrangements for first-time adopters of IFRS Standards. Applying paragraph C1 of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, a first-time adopter is not required to apply IFRS 3 retrospectively. Consequently, a first-time adopter would not apply retrospectively the amendments to IFRS 3 proposed in this project. This means that no further transitional relief would be needed for first-time adopters.
7. There is a reason for permitting an entity to apply the amendments earlier only if at the same time the entity also applies all the amendments made by *Amendments to References to the Conceptual Framework in IFRS Standards*. If the Board agrees with the staff recommendations in this paper, the staff expect the Board to issue the amendments to IFRS 3 in the second quarter of 2020. *Amendments to References to the Conceptual Framework in IFRS Standards* is mandatory for annual reporting periods beginning on or after 1 January 2020. Hence, it is possible that, an entity with an annual reporting period which ends between the expected issue date and 30 December 2020 could apply the updated reference in IFRS 3 without also applying the updated references in other IFRS Standards, unless IFRS 3 prohibits it from doing so.

Comments received

8. Some respondents to the Exposure Draft commented on the proposals for transition and early adoption. All expressed unqualified support, except one accounting firm, which disagreed with the proposal not to require disclosure of early application:

However, as a matter of principle, we consider it appropriate for entities that apply the proposed amendments early to disclose that fact. While the Board noted in ED paragraph BC39 that the amendments “should not significantly change the population of assets and liabilities recognised in a business combination” [emphasis added], any impact cannot be precluded.

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Staff analysis

9. It is possible that some acquirers will apply these amendments early, even if doing so has no significant impact on their financial statements. The reason is that the Board has already updated references to the *Conceptual Framework* in other IFRS Standards (by issuing *Amendments to References to the Conceptual Framework in IFRS Standards*). These updated references come into effect for annual reporting periods beginning on or after 1 January 2020 and earlier application is permitted. A preparer of financial statements who is already referring to the new *Conceptual Framework* to apply those other IFRS Standards may prefer to refer to the new *Conceptual Framework* to apply IFRS 3.
10. As the accounting firm noted, the Board cannot preclude the possibility that, in some cases, the amendments could have some effect on the assets and liabilities an acquirer recognises in a business combination. Given this possibility, users of financial statements might benefit from knowing that the amendments have been applied early, even in cases where early application has not had any significant effect.
11. However, even in the (possibly infrequent) cases where the amendments have some effect, a statement that the entity has applied the amendments early may provide very little relevant information to users of the entity's financial statements. Applying the amendments is unlikely to have a significant effect on comparability because the amendments apply prospectively and all business combinations are different. The most useful information will be information about the assets and liabilities recognised in the current period. Knowing that those assets and liabilities have been identified using the most up to date version of the *Conceptual Framework*, instead of an older version, may provide little further relevant information.
12. There is a cost to disclosure of early application. In this case, the cost may be higher for users of financial statements than it is for preparers. Users may incur costs in assessing the impact of early application, which we think would typically be insignificant.

13. When the Board updated references to the *Conceptual Framework* in other IFRS Standards, it decided not to require disclosure of early application. Stakeholders supported that decision and, with the one exception reported in paragraph 8, have supported the proposal not to require disclosure of early application of the updated reference in IFRS 3.

Staff conclusion

14. For the reasons in paragraphs 9–13, the staff conclude that the Board should not require disclosure of early application.

Staff recommendation and question for the Board

15. The staff recommend the Board confirms the Exposure Draft proposals:
- (a) to require an entity to apply the amendments prospectively;
 - (b) to permit an entity to apply the amendments earlier if at the same time the entity also applies all the amendments made by *Amendments to References to the Conceptual Framework in IFRS Standards*; and
 - (c) not to require an entity that applies the amendments early to disclose that it has done so.

Question 1—transition and early application

Do you agree with the recommendations in paragraph 15?

Due process steps

16. The due process steps to be covered at this meeting are:
- (a) summarising the steps the Board has taken in developing the amendments (paragraphs 17–25);
 - (b) completing the analysis of the effects of the amendments (paragraphs 26–29);

- (c) considering whether the revised proposals require re-exposure (paragraph 30);
- (d) selecting an effective date for the amendments (see paragraphs 31–32); and
- (e) reviewing the due process steps undertaken, deciding whether to give the staff permission to begin the balloting process and identifying any Board members who intend to dissent (see paragraphs 33–34).

Steps taken in developing amendments

Initiation of project and development of Exposure Draft

17. When the Board issued the 2018 *Conceptual Framework*, it also updated most of the references to the *Conceptual Framework* in IFRS Standards¹. However, it did not update a reference in IFRS 3 because it was concerned that updating that reference without changing any other requirements in IFRS 3 could have unintended consequences. In particular, changes to the definitions of assets and liabilities could increase the population of assets and liabilities recognised in a business combination and give rise to ‘day 2’ losses or gains. Therefore, the Board decided to first analyse the possible unintended consequences and ways of avoiding them.
18. To help it identify unintended consequences and to evaluate ways of avoiding them, the staff requested input from members of the Accounting Standard Advisory Forum and large accounting firms.
19. The Board concluded that significant unintended consequences would be confined to the day 2 gains that could arise for liabilities accounted for after the acquisition date applying IAS 37 or its interpretation IFRIC 21. And the consequences could be avoided if, when updating the reference to the *Conceptual Framework*, the Board also added an exception to the recognition principle in IFRS 3.
20. In May 2019, the Board published its proposals in the [Exposure Draft Reference to the Conceptual Framework](#).

¹ See *Amendments to References to the Conceptual Framework in IFRS Standards*, issued in March 2018.

Exposure Draft proposals

21. In the Exposure Draft, the Board proposed not only to update the reference to the *Conceptual Framework* in IFRS 3, but also to add to IFRS 3:
- (a) an exception to its recognition principle, applying to liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21. For these items, an acquirer would apply IAS 37 or IFRIC 21, instead of the 2018 *Conceptual Framework*, to identify the present obligations it had assumed in a business combination.
 - (b) an explicit statement that an acquirer of a business should not recognise any contingent assets acquired. The purpose of this amendment was to clarify existing requirements in IFRS 3 and to confirm that updating the reference to the *Conceptual Framework* would not change those requirements.

Feedback on Exposure Draft proposals and subsequent tentative decisions

22. The Board discussed feedback on the Exposure Draft proposals at its meeting in November 2019.
23. It noted that the proposed amendments received widespread support:
- (a) all respondents supported the proposal to update the reference, some saying they welcomed the Board's efforts to streamline IFRS Standards and some referring to the unnecessary complexity and confusion that can arise from having more than one version of the *Conceptual Framework* in use.
 - (b) almost all respondents also supported the proposed exception, with only a few respondents suggesting alternative ways of avoiding the unintended consequences of updating the reference. The Board had considered these alternative ways when it had developed the proposed amendments and respondents did not put forward any new arguments.
 - (c) almost all respondents also supported the clarification of the requirements for contingent assets, and the few who opposed that clarification appeared to disagree with the requirements, rather than the proposal to clarify them.

24. Given the widespread support for the proposals, the Board did not re-deliberate the proposed overall approach. However, it did discuss three other matters raised by respondents. At its meeting in December 2019, it considered suggestions that it should:
- (a) add another exception, for current tax assets and liabilities within the scope of IFRIC 23 *Uncertainty over Income Tax Treatments*;
 - (b) clarify which of the proposed requirements for contingent liabilities and contingent assets apply the IFRS 3 recognition principle and which are exceptions to the principle; and
 - (c) clarify whether updating the reference to the *Conceptual Framework* will change IFRS 3 requirements for assets and liabilities whose fair values are subject to measurement uncertainty.²
25. As a result of these discussions, the Board tentatively decided to make no changes to the proposed amendments, but to help clarify the requirements in IFRS 3 by deleting paragraph BC125 from the accompanying Basis for Conclusions.

Effects analysis

26. The staff do not think the proposed amendments have major implications for financial reporting—they would update the IFRS 3 reference to the *Conceptual Framework* in a way that should not significantly change the population of assets and liabilities recognised in a business combination.
27. The staff think the amendments will have positive effects. They contribute to the goal of updating all references to the *Conceptual Framework*. Once this goal has been achieved, the Board can withdraw older versions of the *Conceptual Framework*. As respondents to the Exposure Draft noted, having only one version in use will avoid unnecessary complexity and promote consistency in financial reporting.

² See IASB meeting December 2019 [Agenda Paper 10: Reference to the Conceptual Framework—Matters raised by respondents to the Exposure Draft](#).

28. The staff do not think the amendments will have significant associated costs. They should not require major systems changes, and if the Board agrees with the staff recommendation in paragraph 15, entities would apply the amendments prospectively—preparers of financial statements would not have to review past business combinations.
29. For these reasons, the staff conclude that the benefits of the amendments would outweigh the costs.

Re-exposure

30. Having considered the criteria for re-exposure in paragraphs 6.25–6.29 of the [IFRS Foundation Due Process Handbook](#), the staff conclude that the amendments do not require re-exposure. The Exposure Draft proposals received widespread support and the final amendments would not include any significant changes from the Exposure Draft proposals.

Effective date

31. Paragraph 6.35 of the [IFRS Foundation Due Process Handbook](#) requires the Board to set a mandatory effective date for new requirements that gives jurisdictions sufficient time to incorporate the requirements into their legal systems, and those applying IFRS Standards sufficient time to prepare for the requirements. The Board generally allows at least 12 to 18 months between the issuance of a new Standard or amendment and its effective date.
32. The staff expect the Board to issue the amendments in the second quarter of 2020. The Board is planning to issue narrow-scope amendments to several other IFRS Standards in the first and second quarters of 2020. For all these other amendments, it has decided on an effective date of 1 January 2022. We have not identified any reasons for allowing more time than usual to prepare for the amendments to IFRS 3. Accordingly, we recommend the amendments should apply for annual reporting periods beginning on or after 1 January 2022.

Review of due process and permission to begin the balloting process

33. The [appendix](#) lists the due process steps undertaken in developing the amendments. All steps required for finalising amendments to a Standard have been completed and the staff request permission to begin the balloting process.
34. No Board member dissented from the Exposure Draft. Any Board members who intend to dissent from the final amendments are asked to make their intention known at this meeting.

Questions for the Board

Question 2—Due process and permission to begin balloting process

1. Re-exposure—do you agree that the amendments do not require re-exposure (see paragraph 30)?
2. Effective date—do you agree that the amendments should apply for annual reporting periods beginning on or after 1 January 2022 (see paragraphs 31–32)?
3. Dissent—do you intend to dissent from the issuance of the amendments?
4. Permission to ballot—are you satisfied that the Board has complied with the applicable due process requirements and has undertaken sufficient consultation and analysis to begin the balloting process for the amendments?

Appendix—Due process steps

Step	Required or optional?	Actions
Consideration of information gathered during consultation		
All comment letters received on the Exposure Draft posted on the project pages.	Required	All comment letters received were posted and remain on the project webpage. https://www.ifrs.org/projects/work-plan/updated-a-reference-to-the-conceptual-framework-ifrs-3/comment-letters-projects/ed-reference-to-the-conceptual-framework/
Board and Interpretation Committee meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	Discussed at IASB public meetings in November 2018, December 2018, November 2019 and December 2019. A project page on the IFRS Foundation website has been in place over the course of the Board project. https://www.ifrs.org/projects/work-plan/updated-a-reference-to-the-conceptual-framework-ifrs-3/#project-history The project page contains a full description of the project with meeting papers and decision summaries.
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	See analysis in paragraphs 26–29 of this paper.
Public hearings and outreach activities to promote debate and hear views on proposals that are published for public comment.	Optional	Not considered necessary for these narrow-scope amendments.
Consultative group meetings set and Advisory Council consulted.	Optional	Not considered necessary for these narrow-scope amendments.
Email alerts are issued to registered recipients.	Optional	Subscribers to news about the <i>Reference to the Conceptual Framework</i> project have been notified when key documents, eg the Exposure Draft and IASB Update newsletters, are issued.

Step	Required or optional?	Actions
Finalisation		
Due process steps are reviewed by the Board.	Required	To be done at this meeting.
Board considers need for re-exposure.	Required	To be done at this meeting. See paragraph 30 of this paper.
The Board sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Required	To be done at this meeting. See paragraphs 31–32 of this paper.
Drafting		
The implications for the IFRS Taxonomy are considered during the development and drafting of new or amended Standards.	Required	The taxonomy team will review the pre-ballot draft. The amendments do not introduce any new disclosure requirements so we do not think there are major implications.
Drafting quality assurance steps are adequate.	Required	The editorial and translations teams will review drafts during the balloting process.
	Optional	External parties will be invited to perform an editorial review of the pre-ballot draft. This process allows external parties to review and report on the clarity and understandability of the draft.
Publication		
Press release to announce the final Standard.	Required	A press release will be published when the amendments are issued.
Project Summary and Feedback Statement.	Required only for new Standards and major amendments	Not considered necessary for these narrow-scope amendments.
Podcast, webcast. Q&A pack, presentation pack.	Optional—the more significant the changes, the more comprehensive the communications pack is likely to be.	The extent of communications materials needed will be considered closer to publication.