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IFRS® Standards
Exposure Draft ED/2019/3

Reference to the *Conceptual Framework*

Proposed amendments to IFRS 3

Comments to be received by 27 September 2019

IASB®

Exposure Draft

Reference to the *Conceptual Framework*

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Introduction

In this Exposure Draft, the International Accounting Standards Board (Board) proposes three amendments to IFRS 3 *Business Combinations*. The amendments are intended to update IFRS 3 without significantly changing its requirements.

The first proposal is to remove from IFRS 3 a reference to an old version of the Board's *Conceptual Framework*. At present, the recognition principle in IFRS 3 requires the assets and liabilities recognised in a business combination to meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements* issued in 1989 (1989 *Framework*). The Board proposes to replace this reference with a reference to the current version—the *Conceptual Framework for Financial Reporting* issued in March 2018 (2018 *Conceptual Framework*).

The definitions of assets and liabilities in the 2018 *Conceptual Framework* are different from those in the 1989 *Framework*. The differences are such that updating the reference without making any other changes to IFRS 3 could increase the population of assets and liabilities qualifying for recognition in a business combination. Some of those assets or liabilities might not qualify for recognition applying other applicable IFRS Standards after the acquisition date. So, the acquirer would first recognise those assets or liabilities at the time of the business combination and then derecognise them immediately afterwards. The resulting 'day 2' loss or gain would not depict an economic loss or gain, so would not faithfully represent any aspect of the acquirer's financial performance.

The Board has concluded that the problem of day 2 losses or gains would be significant in practice only for liabilities accounted for after the acquisition date applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*. To avoid the problem, the second proposal in this Exposure Draft is to add to IFRS 3 an exception to its recognition principle. For liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if incurred separately, an acquirer should apply IAS 37 or IFRIC 21 respectively, instead of the *Conceptual Framework*, to identify the obligations it has assumed in a business combination. Applying this exception, the liabilities and contingent liabilities recognised in a business combination would be the same as those recognised applying IFRS 3 at present.

The third proposal in this Exposure Draft is to make the IFRS 3 requirements for contingent assets more explicit. IFRS Standards define contingent assets as possible assets whose existence will be confirmed only by uncertain future events. IFRS 3 prohibits recognition of contingent assets, but this prohibition is stated explicitly only in the Basis for Conclusions accompanying the Standard. To clarify the requirements and avoid any doubt about whether updating the reference to the *Conceptual Framework* would change them, the Board proposes to add to IFRS 3 an explicit statement that an acquirer should not recognise contingent assets acquired in a business combination.

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Invitation to comment

The Board invites comments on this Exposure Draft *Reference to the* Conceptual Framework. Comments are most helpful if they:

(a) address the questions as stated;

(b) indicate the specific paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative the Board should consider, if applicable.

The Board is requesting comments only on matters addressed in this Exposure Draft.

Questions for respondents

Question 1
The Board proposes to: (a) update IFRS 3 so it refers to the 2018 *Conceptual Framework* instead of the 1989 *Framework*. (b) add to IFRS 3 an exception to its recognition principle. For liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if incurred separately, an acquirer should apply IAS 37 or IFRIC 21 respectively, instead of the *Conceptual Framework*, to identify the obligations it has assumed in a business combination. (c) add to IFRS 3 an explicit statement that an acquirer should not recognise contingent assets acquired in a business combination. Do you agree with these proposals? If not, why not, and what do you recommend instead? Paragraphs BC21–BC29 describe alternative approaches considered by the Board and explain why the Board is not proposing them.

Question 2
Do you have any other comments on the proposals in this Exposure Draft?

Deadline

The Board will consider all comments received in writing by 27 September 2019.

How to comment

We prefer to receive comments electronically. However, you may submit comments using any of the following methods:

Electronically	Visit the 'Open for comment documents' page at: https://www.ifrs.org/projects/open-for-comment/
By email	Send to: commentletters@ifrs.org
By post	IFRS Foundation Columbus Building 7 Westferry Circus Canary Wharf London E14 4HD United Kingdom

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by good reason, for example, commercial confidence. Please see our website for details on this and on how we use your personal data.

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[Draft] 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, 23A and 64Q are added. The heading above paragraph 21A is 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.~~

...

14 ... 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.

...

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, …

Exception to the recognition principle

~~Contingent~~ Provisions, contingent liabilities and contingent assets

21A Paragraphs 21B–23 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 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.

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.

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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.

...

Effective date and transition

Effective date

...

64Q [Draft] *Reference to the* Conceptual Framework, issued in [Month, Year], amended paragraphs 11, 14, 21, 22 and 23 and added paragraphs 21A, 21B 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 [date to be decided after exposure]. 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.

Approval by the Board of Exposure Draft *Reference to the* Conceptual Framework published in May 2019

The Exposure Draft *Reference to the* Conceptual Framework was approved for publication by all 14 members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Martin Edelmann	
Françoise Flores	
Amaro Luiz de Oliveira Gomes	
Gary Kabureck	
Jianqiao Lu	
Takatsugu Ochi	
Darrel Scott	
Thomas Scott	
Chungwoo Suh	
Ann Tarca	
Mary Tokar	

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Basis for Conclusions on Exposure Draft *Reference to the* Conceptual Framework

This Basis for Conclusions accompanies, but is not part of, the proposed amendments to IFRS 3 Business Combinations. *It summarises the considerations of the International Accounting Standards Board (Board) when developing the proposed amendments. Individual Board members gave greater weight to some factors than to others.*

Reasons for amending IFRS 3

BC1 The Board recently revised its *Conceptual Framework for Financial Reporting*, issuing the revised version in March 2018 (2018 *Conceptual Framework*). The 2018 *Conceptual Framework* replaces a previous version issued in 2010 (2010 *Conceptual Framework*). The 2010 *Conceptual Framework* itself replaced an even earlier version—the *Framework for the Preparation and Presentation of Financial Statements*, issued by the International Accounting Standards Committee in 1989 and adopted by the Board in 2001 (1989 *Framework*).

BC2 As at March 2018 several IFRS Standards, including IFRS 3 *Business Combinations*, required preparers of financial statements to refer to either the 2010 *Conceptual Framework* or the 1989 *Framework*. When the Board issued the 2018 *Conceptual Framework*, it noted its intention to update these Standards so they instead require preparers to refer to the 2018 *Conceptual Framework*. The Board intends to update and align the references in this way to promote consistency in financial reporting and avoid the confusion that could result from having more than one version of the *Conceptual Framework* in use.

BC3 In March 2018 the Board updated most of the references.[1] However, at that time, it did not update the reference in IFRS 3 because it was concerned that updating that reference without making any other changes to IFRS 3 could have unintended consequences. In particular, changes to the definitions of assets and liabilities introduced by the 2018 *Conceptual Framework* could change the population of assets or liabilities recognised in a business combination. The Board decided to first analyse the possible unintended consequences and ways of avoiding them. The Board has now completed its analysis.

BC4 To help it identify unintended consequences and evaluate alternative ways of avoiding them, the Board sought input from members of its Accounting Standards Advisory Forum and subject specialists at large accounting firms. That input informed the proposals set out in this Exposure Draft.

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

Consequences of updating the reference to the *Conceptual Framework*

Possible unintended consequences and the reasons for them

BC5 The recognition principle in IFRS 3 specifies that the assets and liabilities recognised in a business combination must meet the respective definitions of assets and liabilities in the 1989 *Framework*. The definitions of assets and liabilities in the 2018 *Conceptual Framework* are different from those in the 1989 *Framework* (which were carried forward into the 2010 *Conceptual Framework*). Furthermore, the 2018 *Conceptual Framework* includes new concepts to support the definitions, which could change how the definitions are interpreted. The changes are such that replacing the reference to the 1989 *Framework* with a reference to the 2018 *Conceptual Framework* could increase the population of assets and liabilities qualifying for recognition in a business combination.

BC6 Increasing that population would not necessarily be problematic if all the assets and liabilities recognised at the acquisition date continued to qualify for recognition after the acquisition date. However, IFRS 3 specifies that after the acquisition date an acquirer accounts for most types of assets and liabilities recognised in a business combination in accordance with other IFRS Standards applicable to those items. As a result, some assets or liabilities recognised in a business combination might not qualify for recognition subsequently. In such cases, the acquirer would have to derecognise the asset or liability and recognise a resulting loss or gain immediately after the acquisition date. That so-called 'day 2' loss or gain would not depict an economic loss or gain, so would not be a faithful representation of any aspect of the acquirer's financial performance.

BC7 To identify any classes of assets or liabilities for which day 2 losses or gains could arise in practice, the Board compared the 2018 *Conceptual Framework* definitions and supporting concepts with the definitions and concepts applied in IFRS Standards. The Board considered, in particular, two types of items that might be affected by changes to the definitions or supporting concepts:

(a) liabilities accounted for after the acquisition date applying IFRIC 21 *Levies* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (see paragraphs BC8–BC11); and

(b) assets and liabilities with a low probability of future inflows or outflows of economic benefits (see paragraphs BC12–BC14).

Liabilities accounted for after the acquisition date applying IFRIC 21 or IAS 37

BC8 IFRIC 21 addresses levies imposed by governments. Some levies may be calculated by reference to an entity's past activities (for example, as a percentage of revenue generated in the current reporting period), but payable only if the entity fulfils further conditions in the future (for example, if the entity operates in a specified market on a specified date after the reporting

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period). IFRIC 21 states that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy. This means that an entity does not recognise a liability for a levy that would be calculated by reference to its past activities if the obligation to pay that levy remains conditional on a future activity—even if the entity has no practical ability to avoid that future activity.

BC9 The requirements of IFRIC 21 are not consistent with concepts in the 2018 *Conceptual Framework*. Applying those concepts, the event that gives rise to a liability for a levy is not necessarily the activity that triggers payment of the levy. It could be an earlier activity if:

(a) conducting that earlier activity means an entity may have to pay a levy it would not otherwise have had to pay;[2] and

(b) the entity has no practical ability to avoid the later activity that will trigger payment of the levy.[3]

BC10 Thus, applying the definitions and supporting concepts in the 2018 *Conceptual Framework*, an acquirer of a business might recognise at the acquisition date a liability for a levy whose payment would be triggered by a future event that the acquirer had no practical ability to avoid. However, applying IFRIC 21 subsequently, the acquirer would not recognise such a liability until that future event had occurred. Thus, immediately after the acquisition date, the acquirer would derecognise the liability and recognise a day 2 gain.

BC11 IFRIC 21 is an interpretation of IAS 37, meaning that day 2 gains could arise not only for levies but also for other obligations within the scope of IAS 37 that are conditional on an entity's future actions.

Assets and liabilities with a low probability of future inflows or outflows

BC12 The 2018 *Conceptual Framework* clarified the definition of an asset by removing a requirement for 'expected' future economic benefits. It instead defines an asset as a present economic resource controlled by the entity as a result of past events, and defines an economic resource as a right that has the 'potential' to produce economic benefits.[4] Similarly, the 2018 *Conceptual Framework* removed from the definition of a liability a requirement for 'expected' outflows of resources. It instead requires an obligation to have the 'potential' to require the entity to transfer an economic resource to another party.[5] The Board considered whether these amendments would have any consequences for IFRS 3.

2 Paragraph 4.43 of the 2018 *Conceptual Framework for Financial Reporting* (*Conceptual Framework*).

3 Paragraph 4.32 of the 2018 *Conceptual Framework*.

4 Paragraphs 4.3 and 4.4 of the 2018 *Conceptual Framework*.

5 Paragraph 4.37 of the 2018 *Conceptual Framework*.

BC13 The Board concluded that the amendments discussed in paragraph BC12 would have no significant consequences. The Board reached this conclusion because, for the types of assets and liabilities that sometimes could have a low probability of producing inflows or requiring outflows of economic benefits, the IFRS 3 requirements would not be affected by updating the reference to the *Conceptual Framework*. In particular:

(a) *for contingent liabilities*—IFRS 3 applies the 1989 *Framework* liability definition in a way that is consistent with the 2018 *Conceptual Framework* definition. Paragraph 23 of IFRS 3 requires an acquirer to recognise a contingent liability even if it is not probable that an outflow of resources will be required to settle the obligation. Paragraph 56 of IFRS 3 has additional requirements to prevent contingent liabilities recognised at the acquisition date from being derecognised immediately afterwards.

(b) *for intangible assets*—IAS 38 *Intangible Assets* applies a probability recognition criterion, but paragraph 33 of IAS 38 specifies that, for intangible assets acquired in a business combination, the criterion is always considered to be satisfied.

(c) *for deferred tax assets or liabilities*—IFRS 3 has an exception to its recognition principle. Paragraph 24 of IFRS 3 requires an acquirer to recognise and measure deferred tax assets and liabilities at the date of acquisition in accordance with IAS 12 *Income Taxes*.

BC14 IFRS 3 has no specific requirements for property, plant and equipment. So, removing the requirement for 'expected' inflows of economic benefits from the definition of an asset could—in theory at least—require an acquirer to recognise at the acquisition date property, plant or equipment that has the potential to produce economic benefits but is not expected to do so. The acquirer would be required to derecognise any such property, plant or equipment subsequently when applying paragraph 67 of IAS 16 *Property, Plant and Equipment*. However, the Board has concluded that no significant practical consequences are likely to arise from such a change—any property, plant or equipment that is expected to produce no economic benefits, even if it is sold, is unlikely to have a material fair value.

The Board's conclusions

BC15 Having compared the 2018 *Conceptual Framework* definitions and supporting concepts with the definitions and concepts applied in IFRS Standards, the Board concluded that updating the reference to the *Conceptual Framework* without making any other amendments to IFRS 3 could have unintended consequences. However, significant unintended consequences would be confined to the day 2 gains that could arise for liabilities accounted for after the acquisition date applying IFRIC 21 or IAS 37, as described in paragraphs BC10–BC11.

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Possible ways to avoid day 2 gains

The proposals in this Exposure Draft

BC16 To avoid day 2 gains, the Board proposes in this Exposure Draft to add to IFRS 3 an exception to that Standard's principle for recognising liabilities assumed in a business combination. The exception would apply to liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination.

BC17 For provisions and contingent liabilities within the scope of IAS 37, the exception would require an acquirer to apply IAS 37 (instead of the *Conceptual Framework*) to determine whether at the acquisition date a present obligation existed as a result of past events. For levies within the scope of IFRIC 21, the exception would require an acquirer to apply IFRIC 21 to determine whether the obligating event that gave rise to a liability to pay the levy had occurred by the acquisition date.

BC18 IFRIC 21 is an interpretation of IAS 37. However, IFRIC 21 applies not only to levies within the scope of IAS 37 but also to levies whose timing and amount is certain. Accordingly, the Board decided that the proposed exception should explicitly refer to both IAS 37 and IFRIC 21.

BC19 A present obligation identified applying the proposed exception might meet the definition of a contingent liability. This would be the case if it were not probable that an outflow of resources embodying economic benefits would be required to settle the obligation, or if the amount of the obligation could not be measured with sufficient reliability. If a present obligation identified applying the proposed exception met the definition of a contingent liability, paragraph 23 of IFRS 3 would apply. The Board proposes amendments to that paragraph to identify more precisely the requirements in IAS 37 that do not apply in determining which contingent liabilities to recognise at the acquisition date.

BC20 The Board concluded that the obligations recognised as liabilities applying the proposed amendments to IFRS 3 would be the same as those recognised applying IFRS 3 at present; in other words, adding the proposed exception to IFRS 3 should not change the population of liabilities recognised in a business combination.

Other ways to avoid day 2 gains

BC21 The Board also considered other ways to avoid the day 2 gains described in paragraphs BC10–BC11. The following paragraphs describe those other ways and explain why the Board is not proposing them.

Postponing the update

BC22 The Board is gathering evidence to help it decide whether to start a project to develop proposals to amend aspects of IAS 37. As part of any such project, it could develop proposals to align IAS 37 requirements for identifying liabilities (including the requirements in IFRIC 21) with the liability definition and supporting concepts in the 2018 *Conceptual Framework*. If the Board were to align these aspects of IAS 37 with the 2018 *Conceptual Framework*, it could then update the reference to the *Conceptual Framework* in IFRS 3 without creating the potential for day 2 gains.

BC23 However, it is not certain that the Board will amend IAS 37 in this way and, even if it does so, the process of developing amendments, including exposing proposals for comment, could take some years. In the meantime, the Board would continue to have more than one version of its *Conceptual Framework* in use, which could confuse those applying IFRS Standards.

Adding subsequent measurement and accounting requirements to IFRS 3

BC24 As noted in paragraph BC6, IFRS 3 specifies that after the acquisition date an acquirer accounts for most types of assets and liabilities recognised in a business combination in accordance with other IFRS Standards applicable to those items. However, there are some exceptions—IFRS 3 contains specific 'subsequent measurement and accounting' requirements for some types of assets and liabilities that are recognised in a business combination but would not be recognised subsequently when applying other applicable IFRS Standards.

BC25 The Board could take the same approach for liabilities accounted for after the acquisition date applying IAS 37 or IFRIC 21. It could do so by adding specific subsequent measurement and accounting requirements to IFRS 3 for those items. Under this approach, IFRS 3 would require an acquirer to apply the liability definition and supporting concepts in the 2018 *Conceptual Framework* to identify the liabilities assumed at the date of acquisition, and then apply the new requirements in IFRS 3 (instead of those in IAS 37 or IFRIC 21) to measure and account for those liabilities subsequently.

BC26 The Board does not propose this approach because:

(a) there are no Standards-level requirements on how to apply the new liability definition and supporting concepts in the 2018 *Conceptual Framework*. Acquirers might reach different views on how to apply the concepts, leading to diversity in practice.

(b) if the Board decided to amend IAS 37 later to make it consistent with the 2018 *Conceptual Framework* (see paragraph BC22), the amended IAS 37 could require accounting policies different from those that acquirers had developed to apply the subsequent measurement and accounting requirements added to IFRS 3. Differences could lead to a second round of changes to the way in which entities apply IFRS 3.

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(c) more time and resources would be needed to develop subsequent measurement and accounting requirements to add to IFRS 3 than are needed to add the exception proposed in this Exposure Draft. There may also be calls for further requirements to help entities apply the new liability definition and supporting concepts consistently. It could be argued that this time would be better invested developing proposals to amend IAS 37, which has wider application.

Changing the IFRS 3 recognition principle

BC27 The recognition principle in IFRS 3 specifies that the assets and liabilities recognised in a business combination must meet the respective definitions of assets and liabilities in the 1989 *Framework*. One way to avoid unintended consequences of updating the reference would be to change the recognition principle. IFRS 3 could instead specify that:

(a) for assets or liabilities that would be within the scope of another IFRS Standard if acquired or incurred separately, any asset or liability recognised must meet the definition of an asset or a liability applied in that Standard; and

(b) for assets or liabilities that would not be within the scope of any other IFRS Standard, any asset or liability recognised must meet the definition of an asset or a liability in the 2018 *Conceptual Framework*.

BC28 This approach would reduce the range of items that an acquirer would assess applying the definitions of assets and liabilities in the *Conceptual Framework*. That could lower the risk of other, as-yet-unidentified consequences of updating the reference.

BC29 However, this approach would involve a wider-reaching change to IFRS 3 than the narrow-scope recognition exception proposed in this Exposure Draft. Unlike the narrow-scope recognition exception, it could change the population of assets and liabilities recognised in a business combination. It could itself have unintended consequences, which could be identified only by conducting further research, and may require further consequential amendments to IFRS 3. Because this approach would involve a wider-reaching and more complicated change to IFRS 3 than that required to address the unintended consequences identified by the Board's research, the Board did not pursue it further.

Contingent assets

BC30 Paragraph 10 of 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. Paragraph 31 of IAS 37 prohibits the recognition of contingent assets.

BC31 Similarly, IFRS 3 prohibits the recognition of contingent assets acquired in a business combination. Although this prohibition is not stated explicitly in IFRS 3, it can be inferred from the IFRS 3 recognition principle and is confirmed in paragraph BC276 of the Basis for Conclusions accompanying the Standard, which states that:

> Accordingly, the IASB concluded that contingent assets should not be recognised, even if it is virtually certain that they will become unconditional or non-contingent.

BC32 Updating the reference in IFRS 3 to the *Conceptual Framework* would not change that Standard's requirements for contingent assets. The 2018 *Conceptual Framework* discusses situations in which it is uncertain whether an entity has a right. It notes that until that uncertainty is resolved, for example, by a court ruling, it is uncertain whether an asset exists.[6] And it allows for the possibility that, in some circumstances, an entity might not recognise in its financial statements an asset whose existence is uncertain.[7]

BC33 To clarify the IFRS 3 requirements and avoid any doubt about whether updating the reference to the *Conceptual Framework* would change them, the Board proposes to add to the Standard an explicit statement clarifying that contingent assets do not qualify for recognition at the acquisition date.

Transition and early application

Transition

BC34 The Board proposes that an entity would apply the amendments prospectively, that is, only to business combinations occurring on or after the beginning of the first annual reporting period for which the entity applies the proposed amendments.

BC35 The Board concluded that no significant benefits would be gained from requiring entities to apply the proposed amendments retrospectively, that is, to business combinations occurring in earlier periods. The Board does not expect the amendments to change significantly the population of assets and liabilities recognised in a business combination, and so thinks that 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.

Early application

BC36 The Board typically permits entities to apply new requirements before their effective date (early application) and sees no reason not to permit early application of the amendments proposed in this Exposure Draft, especially because the amendments should not significantly change the population of assets and liabilities recognised in a business combination.

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6 Paragraph 4.13 of the 2018 *Conceptual Framework*.

7 Paragraph 5.14 of the 2018 *Conceptual Framework*.

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BC37 Furthermore, the Board noted that permitting early application of the updated reference to the *Conceptual Framework* in IFRS 3 could simplify procedures for preparers of financial statements who are already applying the updated references in other IFRS Standards. The amendments made by *Amendments to References to the* Conceptual Framework *in IFRS Standards* are effective for annual periods beginning on or after 1 January 2020, and an entity may apply them before that date if it applies them all at the same time.

BC38 The Board concluded that the conditions for early application of the amendments proposed in this Exposure Draft should be consistent with the conditions for early application of the other updated references. To achieve consistency, early application would be permitted only if at the same time or earlier an entity also applied all the amendments made by *Amendments to References to the* Conceptual Framework *in IFRS Standards*.

BC39 Some IFRS Standards require entities that apply amendments early to disclose the fact that they have done so. However, *Amendments to References to the* Conceptual Framework *in IFRS Standards* does not require such a disclosure. The Board concluded there is similarly no need to require disclosure of early application of the amendments proposed in this Exposure Draft, because those amendments should not significantly change the population of assets and liabilities recognised in a business combination.

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