

Reference to the Conceptual Framework (Proposed amendments to IFRS 3)

Feedback to constituents – EFRAG Final Comment Letter

September 2019

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

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Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the Exposure Draft ED-2019-3 *Reference to the Conceptual Framework (Proposed amendments to IFRS 3)* (‘the ED’) on [Date]. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG’s final comment letter.

Background to the ED

When issuing the revised *Conceptual Framework for Financial Reporting* in March 2018 (the ‘2018 Conceptual Framework’), the

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IASB updated many of the references to the Conceptual Framework in IFRS Standards to the revised Conceptual Framework. However, the reference to *Framework for Preparation and Presentation of Financial Statements* in paragraph 11 of IFRS 3 *Business Combinations* was not updated as the IASB was concerned this could result in unintended consequences.

The ED proposed to:

- (a) Update the reference in IFRS 3 so that it refers to the 2018 Conceptual Framework.
- (b) Specify in IFRS 3 that levies within the scope of IFRIC 21 *Levies* and other obligations within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* should be recognised on the acquisition of a business only if they would be identified as present obligations by an entity applying IFRIC 21 or IAS 37.

Further details are available on the EFRAG [website](#).

EFRAG’s draft comment letter

EFRAG published a [draft comment letter](#) on the proposals on 28 June 2019. In the draft comment letter, EFRAG agreed with the proposals included in the ED.

Comments received from constituents

EFRAG has received and considered five comment letters from constituents. These comment letters are available on the EFRAG [website](#).

The comment letters received came from national standard setters and professional organisations.

The comment letters all expressed support for the proposals included in the ED, and hence with the conclusion of the EFRAG draft comment letter. Some of the comment letter, however, included additional recommendations for the IASB.

EFRAG’s final comment letter

EFRAG issued its final comment letter on [XX September 2019].

In its comment letter EFRAG agreed with the ED.

Detailed analysis of issues, comments received and changes made to EFRAG’s final comment letter

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

EFRAG’s response to constituents’ comments

Comments

EFRAG’s tentative position

In its draft comment letter, EFRAG agreed with the proposals included in the ED.

Constituents’ comments

The comment letters received all agreed completely or broadly with the proposals included in the ED. Three comment letters included the following additional comments:

- (a) A revision of IAS 37 should be urgent in order to avoid inconsistencies in IASB Standards [CNC];
- (b) A ‘day 2 gain’ may occur as liabilities in a business combination are measured at fair value at the acquisition date and subsequently measured in accordance with IAS 37. The IASB should consider whether this ‘day 2 gain’ would depict an economic gain or not and whether or not it should be reported in profit or loss [OIC].
- (c) In theory contingent assets would affect the consideration given by the acquirer as well as other assets and liabilities. The IASB should therefore reconsider whether an asymmetrical accounting treatment between contingent assets and contingent liabilities is justified for items being recognised at fair value [OIC].
- (d) The IASB should give further consideration to how the proposals included in the ED interacts with current IFRS 3 requirements for ‘indemnification assets’, including whether further clarification is

EFRAG’s final position

EFRAG notes that it could be argued that the approach suggested in the ED would not promote consistency in financial reporting. Although IFRS 3 would refer to the new definitions of assets and liabilities in the 2018 *Conceptual Framework*, the suggested exception to the recognition principles would mean that the new definitions would not be applied for the items that could be affected by the new definition. EFRAG, however, considered this to be a satisfactory solution in the short run as EFRAG considered that the exception will only be temporary as a result of the IASB’s project on provisions. EFRAG thus considers that the IASB’s project on provisions is important but it does not assess the project to be of an urgency that would mean that the IASB would have to prioritise it on behalf of all other projects. EFRAG has accordingly decided not to state in its comment letter that the IASB’s project on provisions is ‘urgent’ as suggested in a comment letter.

EFRAG agrees with the comment that a ‘day 2 gain’ may occur as a result of differences in the measurement requirements, because certain liabilities are measured at fair value at the acquisition date and are subsequently measured in accordance with IAS 37. EFRAG, however, notes that the issue does not arise as a result of the ED. EFRAG accordingly decided not to include the comment in its comment letter in response to the ED.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

needed. A tension could exist between the proposed requirement that would prohibit recognition of contingent assets in all circumstances in the case an indemnification asset relates to a contingent liability that is recognised in a business combination in accordance with IFRS 3 [ICAEW].

EFRAG’s response to constituents’ comments

Similarly, EFRAG agrees that in theory, contingent assets would affect the consideration by the acquirer. It could therefore be considered whether an asymmetrical treatment between contingent assets and contingent liabilities is justified for items measured at fair value. However, this asymmetry already exists and is thus not a result of the ED.

EFRAG considers that the comment that a tension could exist between the guidance in IFRS 3 on indemnification assets and the proposed requirement that an acquirer shall not recognise a contingent asset at the acquisition date, seems to assume that an indemnification asset would be a contingent asset if it is related to a contingent liability. EFRAG questions this assumption. EFRAG, however, acknowledges that there may be different views on this topic. It is therefore useful to inform the IASB about the issue. EFRAG has therefore ensured that the respondent has also submitted a comment letter on the ED directly to the IASB.

Appendix 1: List of respondents

Table 1: List of respondents

Name of constituent¹	Country	Type / Category
Comissão de Normalização Contabilística (CNC)	Portugal	Standard setter
Organisimo Italiano de Contabilità (OIC)	Italy	Standard setter
Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain	Standard setter
ICAEW	United Kingdom	Chartered accountant association
Danske Revisorer – FSR, Regnskabsudvalget (DASC)	Denmark	Standard setter

¹ Respondents whose comment letters were considered by the EFRAG Board before finalisation of the comment letter.

Appendix 2: Summary - respondents by country and by type

Table 2: Total respondents by country and by type

Respondent by country:		Respondent by type:	
Denmark	1	National Standard Setters	4
Italy	1	Auditors	1
Portugal	1	Business Associations	
Spain	1	Preparers	
United Kingdom	1	Users	
		Regulators	
		Others	
European organisations			
Global organisations			
	5		5

