



REFERENCE TO THE CONCEPTUAL FRAMEWORK: PROPOSED AMENDMENTS TO IFRS 3

Issued 20 August 2019

ICAEW welcomes the opportunity to comment on the *Reference to the Conceptual Framework: Proposed amendments to IFRS 3* published by the IASB in May 2019, a copy of which is available from this [link](#).

We broadly support the IASB's proposed amendments, which aim to update any reference to the Conceptual Framework for Financial Reporting in IFRS 3 *Business Combinations* without changing the underlying accounting requirements in the standard. However, we suggest that further consideration is given to how the proposed amendments interact with current IFRS 3 requirements for 'indemnification assets' and whether further clarification is needed.

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KEY POINTS

SUPPORT FOR PROPOSALS

1. We broadly support the IASB's proposed amendments, which aim to update any reference to the Conceptual Framework for Financial Reporting in IFRS 3 *Business Combinations* without changing the underlying accounting requirements in the standard. However, we suggest that consideration is given to how the proposed amendments interact with current IFRS 3 requirements for 'indemnification assets' and whether further clarification is needed.

ANSWERS TO SPECIFIC QUESTIONS

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.

2. We broadly support the IASB's proposed amendments, which aim to update any reference to the Conceptual Framework for Financial Reporting in IFRS 3 without changing the underlying accounting requirements in the standard.
3. That said, we believe there could be a potential tension between proposed paragraph 23A, which would prohibit recognition of contingent assets in all circumstances, and the current IFRS 3 requirements on 'indemnification assets' as outlined in paragraphs 3.27-28. It appears that this tension would exist if the 'indemnification asset' relates to a contingent liability that is recognised in a business combination in accordance with paragraph 3.23. In this case, the 'indemnification asset' could be considered to be a contingent asset, which would then be in conflict with the proposed guidance in IFRS 3.
4. We suggest that consideration is given to this point when finalising the amendments to IFRS 3, including whether further clarification is needed.

Question 2

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

5. We have no further comments on the draft proposals.