

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.

Updating a reference to the Conceptual Framework Cover Note

Objective

- 1 The objective of this session is to agree to recommend to the EFRAG Board a draft comment letter on the IASB's Exposure Draft ED/2019/3 *Reference to the Conceptual Framework* (amendments to IFRS 3) ('the ED') issued by the IASB on 30 May 2019.

Background

- 2 IFRS 3 Business Combinations states in paragraph 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 at the acquisition date.
- 3 When issuing the revised Conceptual Framework for Financial Reporting in March 2018, the 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 was not updated as the IASB was concerned this could result in unintended consequences.
- 4 The new definition of a liability would in some cases result in levies being recognised earlier than under IFRIC 21 *Levies*. Accordingly, an entity might have to recognise a liability in relation to a levy in a business combination but would have to derecognise this on day 2 as the levy cannot be recognised according to IFRIC 21.
- 5 The ED proposes to:
 - (a) Update the reference in IFRS 3 so that it refers to the revised Conceptual Framework.
 - (b) Specify in IFRS 3 that levies within the scope of IFRIC 21 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.
 - (c) Clarify that in applying the IFRS 3 recognition principle, an acquirer does not recognise contingent assets.
- 6 EFRAG TEG discussed the proposal (based on the agenda papers prepared for the November 2018 IASB meeting) at its February 2019 meeting.

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- 7 At the February 2019 meeting, six EFRAG TEG members expressed support for the proposal. One member thought IFRS 3 should instead be amended so that liabilities recognised following the revised definition of a liability would not be derecognised on day two.
- 8 The EFRAG Secretariat has prepared a draft comment letter based on this input.

Agenda Papers

- 9 In addition to this cover note, the following papers have been provided for the session:
 - (a) Agenda paper 02-02 – EFRAG Draft Comment Letter on ED-2019-3.
 - (b) Agenda paper 02-03 – IASB Exposure Draft ED/2019/3 *Reference to the Conceptual Framework (Amendments to IFRS 3)* – for background.