23 September 2019

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom
Email: commentletters@ifrs.org

Dear Sir/ Madam

SAICA SUBMISSION ON ED/2019/3 – REFERENCE TO THE *CONCEPTUAL FRAMEWORK*: PROPOSED AMENDMENTS TO IFRS 3

In response to your request for comments on ED/2019/3 – Reference to the *Conceptual Framework*: Proposed Amendments to IFRS 3, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this exposure draft.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Ahmed Mohammadali-Haji
Chairperson: APC

Bongeka Nodada
Project Director: Financial Reporting Standards

SPECIFIC COMMENTS

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.

We agree with the proposals and the transition requirements.

- However, some of the constituents noted that the new definition of liabilities in the 2018 *Conceptual Framework* might give rise to new 'low probability liabilities' being recognised and that there could be diversity in practice as to how this is applied. The constituents disagreed with the views of the Board in BC13 in which the Board notes that "*…the amendments discussed in paragraph BC12 would have no significant consequences*" and felt that there could be instances where the recognition of 'low probability liabilities' could have a significant impact. The constituents argue that companies could use the wording in section 4.36 and 4.37 of the *2018 Conceptual Framework*, which states *"…the obligation is to transfer an economic resource…the obligation must have the potential to require the entity to transfer economic resource to another party…it does not need to be certain, or even likely…"*, in order to recognise "low probability liabilities" of which the application in practice could differ. Therefore, they propose that guidance be included in IFRS 3 similar to what exists for contingent liabilities.

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

- We have noted that several IFRS Standards had not yet been updated and aligned with the 2018 *Conceptual Framework,* therefore we propose that the Board consider a wider project to align and update the several IFRS Standards to promote consistency in financial reporting and avoid the confusion. We would be in favour of research into amending IAS 37 in order for it to be aligned with the 2018 *Conceptual Framework*. Thus, we agree with the Board that adding subsequent measurement and accounting requirements to IFRS 3 could result in a second round of changes to IFRS 3 when and if IAS 37 is amended, thus no such subsequent measurement and accounting requirements should be added to IFRS 3.

- The constituents agreed with the introduction of paragraph 23A in IFRS 3 which states that *"The acquirer shall not recognise a contingent asset at the acquisition date"*. This is believed to be in line with section 2.17 of the 2018 *Conceptual Framework* which states that "*Nevertheless, particular Standards may contain asymmetric requirements if this is a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent*".

- Some of the constituents felt that due to the reference to the 2018 *Conceptual Framework* in IFRS 3, it would be appropriate for example in relation to intangible assets, that the recognition of intangible assets should be refined in the standard much the same as dealing with contingent liabilities.

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