



Department for  
Business, Energy  
& Industrial Strategy

# UK-adopted international accounting standards

Reference to the  
Conceptual Framework  
Amendments to IFRS 3

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## Amendments to IFRS 3 *Business Combinations*

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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, 21C, 23A and 64Q are added. A heading is added above paragraph 21A and the headings below paragraph 21 and above paragraph 22 are 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

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#### 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*~~<sup>\*</sup> *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.

- <sup>\*</sup> ~~For this Standard, acquirers are required to apply the definitions of an asset and a liability and supporting guidance in the IASB'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.~~

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- 14** Paragraphs B31–B40 provide guidance on recognising intangible assets. Paragraphs ~~2221A~~–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.

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##### Exceptions to the recognition or measurement principles

- 21** This IFRS provides limited exceptions to its recognition and measurement principles. Paragraphs ~~2221A~~–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 ~~2221A~~–31A, which will result in some items being:

- (a) recognised either by applying recognition conditions in addition to those in paragraphs 11 and 12 or by applying the requirements of other IFRSs, with results that differ from applying the recognition principle and conditions.
- (b) measured at an amount other than their acquisition-date fair values.

~~Exception~~ Exceptions to the recognition principle

Liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21

- 21A Paragraph 21B applies 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.
- 21C A present obligation identified in accordance with paragraph 21B might meet the definition of a contingent liability set out in paragraph 22(b). If so, paragraph 23 applies to that contingent liability.

Contingent liabilities and contingent assets

- 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.
- 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.

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## Effective date and transition

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### Effective date

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64Q Reference to the Conceptual Framework, issued in May 2020, amended paragraphs 11, 14, 21, 22 and 23 and added paragraphs 21A, 21B, 21C 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 1 January 2022. 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.

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