ED/ Ind AS 103/2021/3

Exposure Draft

Reference to the Conceptual Framework

(Amendments to Ind AS 103, *Business Combinations*)

(Last date for Comments: March 20, 2021)

Issued by
Accounting Standards Board
The Institute of Chartered Accountants of India

Exposure Draft

Reference to the Conceptual Framework (Amendments to Ind AS 103)

Following is the Exposure Draft of the Amendments to Ind AS 103, *Business Combinations*, issued by the Accounting Standards Board (the Board) of the Institute of Chartered Accountants of India for comments.

Paragraph 11 of Ind AS 103 requires to use the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements under Ind AS* (Framework) when deciding whether to recognise assets and liabilities as part of a business combination. While formulating the Conceptual Framework for Financial Reporting under Ind AS (Conceptual Framework), the references to Framework in Ind AS 103 were not replaced with the reference to Conceptual Framework since applying the revised definitions could change which assets and liabilities qualify for recognition in a business combination. In cases of liabilities that an acquirer accounts for after the acquisition date by applying Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or Appendix C to Ind AS 37, *Levies*, the post-acquisition accounting required by other Ind AS could then lead to immediate derecognition of assets or liabilities recognised in a business combination, resulting in so-called *Day 2 gains or losses* that do not depict an economic gain or loss. The Exposure Draft proposes to amend Ind AS 103 to replace the reference to the Conceptual Framework and to add an exception to its recognition principle to avoid any changes to the assets and liabilities recognised in a business combination. The Exposure draft also proposes amendments to clarify the requirements for contingent assets—that is, possible assets whose existence is uncertain. Paragraph 23A to Ind AS 103 added to make its requirements for contingent assets explicit and clarify that replacing the reference to the Conceptual Framework does not change them.

The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they contain a clear rationale and, where applicable, provide suggestions for alternative wording.

Comments can be submitted using one of the following methods, so as to be received not later than **March 20, 2021**.

1. Electronically: Click on http://www.icai.org/comments/asb/ to submit comments online. (Preferred method)

2. Email: Comments can be sent to commentsasb@icai.in

3. Postal: Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002.

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

Exposure Draft of Reference to the Conceptual Framework (Amendments to Ind AS 103, *Business Combinations)*

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 not amended but is included for ease of reference.

The acquisition method

...

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 in accordance with Indian Accounting Standards**~~ <u>*Conceptual Framework for Financial Reporting under Indian Accounting Standards*</u> issued by the Institute of Chartered Accountants of India 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 Ind AS.

~~* For this Standard, acquirers are required to apply the definitions of an asset and a liability given in *Framework for Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards* rather than the *Conceptual Framework for Financial Reporting under Indian Accounting Standards issued in 2020*.~~

...

14 Paragraphs B31–B40 provide guidance on recognising intangible assets. Paragraphs ~~22~~<u>21A</u>–28B specify the types of identifiable assets and liabilities that include items for which this Ind AS provides limited exceptions to the recognition principle and conditions.

...

Exceptions to the recognition or measurement principles

21 This Ind AS provides limited exceptions to its recognition and measurement principles. Paragraphs ~~22~~21A–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 ~~22~~21A– 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 Ind ASs, 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 Ind AS 37 or Appendix C, *Levies*, of Ind AS 37

21A Paragraph 21B applies to liabilities and contingent liabilities that would be within the scope of Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or Appendix C, *Levies*, of Ind AS 37 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 Ind AS 37, the acquirer shall apply paragraphs 15–22 of Ind AS 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 Appendix C of Ind AS 37, the acquirer shall apply Appendix C of Ind AS 37 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 Ind AS 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 Ind AS 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 Ind AS 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 Ind AS provides guidance on the subsequent accounting for contingent liabilities.

23A Ind AS 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.

...

Effective date

...

64Q *Reference to the Conceptual Framework*, 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 April 2022[1].

[1] Subject to notification by the Ministry of Corporate Affairs (MCA) with the same date.