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International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

Comments on the Exposure Draft *Reference to the Conceptual Framework (Proposed amendments to IFRS 3)*

To the Board Members:

The Japanese Institute of Certified Public Accountants ("we" and "our") appreciates the continued efforts of the International Accounting Standards Board on this project, and welcomes the opportunity to comment on the Exposure Draft *Reference to the Conceptual Framework (Proposed amendments to IFRS 3)* ("ED").

Please find below our comments to the questions raised in the ED.

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.

Comment:

(a) We agree with the proposal to update IFRS 3 so it refers to the 2018 *Conceptual Framework* instead of the 1989 *Framework*.

As the Conceptual Framework is now revised, we suggest that not only IFRS 3 but also the entire IFRS standards change the reference to the 2018 *Conceptual Framework,* the latest version.

(b) We agree with the proposed amendment.

The long-left issue of recognising 'day 2 loss' is now solved by adding paragraphs 21A and 21B, which we believe is a great achievement.

According to the proposed amendment, liabilities that would be in the scope of IAS 37 are recognised in accordance with IAS 37, and contingent liabilities that do not meet the probability recognition criterion are recognised under IFRS 3 to reflect the economic reality of the business combination. The requirement for subsequent measurement is also added to IFRS 3 under the proposed amendment. We welcome all of these proposals as they seem to be appropriate.

However, according to the 'recognition principle' stated in paragraph 10 and 'exceptions to the recognition principle' listed in paragraphs 21A and after, we believe that insufficient explanation is provided for the relationship between 'principle' and 'exception' for recognition purposes. We recommend the IASB to consider whether or not an additional explanation should be added to IFRS 3. The reason we think the relationship between 'principle' and 'exception' is unclear in IFRS 3 and our recommendation regarding the matter are provided below:

- Under the current IFRS 3, the recognition principle is stated in paragraph 10, and 'limited exceptions' to the recognition principle are provided in paragraphs 14 and 21. In addition to above, paragraphs 22–28A specify particular items for which exceptions are provided.

- The definition of contingent liabilities in paragraph 22 is put under the heading 'Exception to the recognition principle.' This indicates that, under the current IFRS 3, contingent liabilities should be recognised even if they do not meet the probability criteria. That is why contingent liabilities are considered to be an ‘exception to the recognition principle’ under the current IFRS 3, despite the fact that IFRS 3 is referring to the 1989 *Framework* under which the probability criteria are required to be met.

- On the other hand, if IFRS 3 is amended through the proposed approach, the recognition of contingent liabilities that do not meet the probability criteria would no longer be regarded as an exception to the recognition principle under IFRS 3, but rather would be seen as an accounting treatment in compliance with the recognition principle under the newly amended IFRS 3. That being said, if contingent liabilities continued to be treated as an ‘exception to the recognition principle,’ it would be unclear as to what is regarded as an exception. If contingent liabilities are truly an ‘exception to the recognition principle,’ a detailed explanation should be provided at least in the Basis of Conclusion about the meaning of ‘exception to the recognition principle.’

(c) We agree with the proposed amendment as it explicitly provides the accounting treatment for contingent assets acquired in a business combination.

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

Comment:

We would like to comment on the status of BC125 of IFRS 3 regarding the criterion on reliability of measurement.

According to BC125 of IFRS 3, the criterion on reliability need not be stated in IFRS 3, given that the reliability of measurement is a part of the overall recognition criteria in the 2001 *Conceptual Framework*. It seems that the criterion on reliability is implicitly required under the current IFRS 3. However, we recognise that when the amended IFRS 3 requires entities to refer to the 2018 *Conceptual Framework,* the argument in BC125 of IFRS 3 would become irrelevant. This would certainly become an issue if an uncertainty remains as to whether or not the criterion on reliability is implicitly required under IFRS 3.

Accordingly, we highly recommend that the IASB should clarify in the proposed amendment whether or not the criterion on reliability is required under IFRS 3.

BC125 IFRS 3 included another recognition criterion for assets acquired or liabilities assumed in a business combination. That criterion required an asset or liability to be recognised separately from goodwill only if it could be reliably measured.

In its deliberations leading to the revised IFRS 3, the IASB decided to eliminate reliability of measurement as an overall criterion, which it observed is unnecessary because reliability of measurement is a part of the overall recognition criteria in the Framework.

BC126 IFRS 3 provided that an acquirer should recognise the acquiree's identifiable assets (other than intangible assets) and liabilities (other than contingent liabilities) only if it is probable that the asset or liability will result in an inflow or outflow of economic benefits. The revised IFRS 3 does not contain that probability recognition criterion and thus it requires the acquirer to recognise identifiable assets acquired and liabilities assumed regardless of the degree of probability of an inflow or outflow of economic benefits.

BC130 Therefore, the IASB decided that inclusion of the probability criterion in the revised IFRS 3 is unnecessary because an unconditional right or obligation will always satisfy the criterion. In addition, the IASB made consequential amendments to paragraphs 25 and 33 of IAS 38 Intangible Assets to clarify the reason for its conclusion that the probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination. Specifically, the amendment indicates that an entity expects there to be an inflow of economic benefits embodied in an intangible asset acquired separately or in a business combination, even if there is uncertainty about the timing and the amount of the inflow.

Yours faithfully,

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