Reference to the Conceptual Framework

Issued June 2020

This Standard was issued on 25 June 2020 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 23 July 2020.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date set out in Part D.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 For-profit Accounting Standard is based on amendments issued by the International Accounting Standards Board to update IFRS 3 *Business Combinations* by replacing a reference to an older conceptual framework with a reference to the most recent conceptual framework.

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Part A – Introduction

This Standard sets out amendments to update NZ IFRS 3 *Business Combinations* by replacing a reference to an older conceptual framework with a reference to the most recent conceptual framework. Tier 2 entities are required to comply with all the requirements in this Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendments to NZ IFRS 3 *Business Combinations*

Paragraph 11 is amended and the footnote to the New Zealand Equivalent to the IASB *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 ~~New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements*[*]~~ *Conceptual Framework for Financial Reporting* (2018 *NZ Conceptual Framework*) 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 NZ IFRSs.

~~[*] For this Standard, acquirers are required to apply the definitions of an asset and a liability and supporting guidance which were in the New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements* rather than the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* issued in 2018 (2018 *NZ Conceptual Framework*). These definitions of assets and liabilities and supporting guidance were incorporated in Chapter 4 of the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting 2010*.~~

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14 Paragraphs B31–B40 provide guidance on recognising intangible assets. Paragraphs ~~22~~21A–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 NZ IFRS 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 NZ 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 NZ IAS 37 or NZ IFRIC 21

21A Paragraph 21B applies to liabilities and contingent liabilities that would be within the scope of NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or NZ IFRIC 21 *Levies* if they were incurred separately rather than assumed in a business combination.

21B The 2018 *NZ Conceptual Framework* 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 NZ IAS 37, the acquirer shall apply paragraphs 15–22 of NZ 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 NZ IFRIC 21, the acquirer shall apply NZ 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 NZ 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 NZ 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 NZ 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 NZ IFRS provides guidance on the subsequent accounting for contingent liabilities.

23A NZ 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

Effective date

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64Q *Reference to the Conceptual Framework*, issued in June 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 NZ IFRS*, issued in May 2018.

Part D – Effective Date

This Standard shall be applied 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 NZ IFRS*, issued in May 2018.