COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
http://www.cpc.org.br

September 27, 2019

commentletters@ifrs.org

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London

Reference: Exposure Draft ED 2019/3 – Reference to the Conceptual Framework – Proposed amendments to IFRS 3

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1]welcomes the opportunity to respond to theExposure Draft 2019/3 – Reference to the Conceptual Framework – Proposed amendments to IFRS 3.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

***

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Rogério Lopes Mota
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

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?

We agree with proposals (a) and (b) because when the paragraph 21A establish that IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies are only applicable to liabilities and contingent liabilities **that were incurred separately rather than assumed in a business combination**. Consequently, this requirement does not prohibit recognizing a contingent consideration (according to IFRS 3, paragraphs 39 and 40).

On the other hand, we agree that the liabilities and contingent liabilities recognised in a business combination will be the same as those currently recognised applying IFRS 3 after these amendments (a and b). This is due to the fact that paragraph 23 demands that "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".

However, we believe that a contingent asset effectively paid by the acquirer should be recognized separately from goodwill to improve the information provided to the user of the financial statements. We suggest that the Board reassess this issue in the IFRS 3 revision process.

Question 2

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

We do not have any other comments on the Exposure Draft.