สภาวิชาชีพบัญชี ในพระบรมราชูปถัมภ์
FEDERATION OF ACCOUNTING PROFESSIONS
UNDER THE ROYAL PATRONAGE OF HIS MAJESTY THE KING

July 8, 2019

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus, Canary Wharf,
London E14 4HD, United Kingdom

Dear Mr. Hoogervorst,

Response on IFRS Standards Exposure Draft ED/2019/3 Reference to the Conceptual Framework Proposed amendments to IFRS 3

Thailand Federation of Accounting Professions (TFAC) would like to show our appreciation on the opportunity to response on ***IFRS Standards Exposure Draft ED/2019/3 Reference to the Conceptual Framework Proposed amendments to IFRS 3***. Overall, we agree with the proposed updating to the reference to the conceptual framework and some updating on the principles of IFRS3. However, the consequential amendment to IFRS3 must be considered to avoid unintended consequences that may arise.

Please find our responses to the specific survey raised in ***IFRS Standards Exposure Draft ED/2019/3 Reference to the Conceptual Framework Proposed amendments to IFRS 3*** in an attachment. We believe that these responses will help the practitioners in the future and that our response will contribute positively to the IASB's due process. Should you need more information, please kindly contact the Thailand Federation of Accounting Professions of Thailand.

Thailand Federation of Accounting Professions avails itself of this opportunity to the International Accounting Standards Board the assurances of its highest consideration.

Yours sincerely,

Associate Professor Dr.Somchai Supattarakul
Chairman of Thai Accounting Standards Board
Thailand Federation of Accounting Professions
Bangkok, Thailand

133 ถนนสุขุมวิท 21 (อโศก) แขวงคลองเตยเหนือ
เขตวัฒนา กรุงเทพมหานคร 10110
โทร : 0-2685-2500 โทรสาร : 0-2685-2501
http://www.fap.or.th E-mail : fap@fap.or.th

133 SUKHUMVIT 21 (ASOK) ROAD, KLONG TOEI NUA,
WATTHANA DISTRICT, BANGKOK 10110 THAILAND
TEL : 0-2685-2500 FAX : 0-2685-2501
http://www.fap.or.th E-mail : fap@fap.or.th

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

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.

TFAC:

Responses to Question 1(a):

We agree with the Board's proposal to amend the reference to IFRS3. Having multiple references (i.e. reference to 1989 Framework, 2010 Conceptual Framework, or 2018 Conceptual Framework) in IFRSs increases level of complexity (and may add confusions) in applying IFRSs. This may result in inconsistency in recognition of assets and liabilities resulting from business combinations and resulting from some other transactions. The Board's proposal to update the reference to IFRS3 from 1989 Framework to 2018 Conceptual Framework is considered appropriate. However, the consequential amendment to IFRS3 must be considered to avoid unintended consequences that may arise.

Responses to Question 1(b):

We agree with the Board's proposal to update the reference to 2018 Conceptual Framework now and add an exception to recognition principle to the matter related to IAS37 and IFRIC21 to avoid 'Day 2' gain or loss.

The revised definition of assets and liabilities stated in 2018 Conceptual Framework may result in an increase in the number of assets and liabilities recognised at the date of acquisition (Day 1) in business combinations. Assets with low probability of future inflows of economic benefits may be recognised if the assets have 'potential' (rather 'expected') to produce economic benefits. Likewise, liabilities with low probability of future outflows of economic benefits may be recognised if an entity has no practical ability to avoid the obligations. If the assets and liabilities that are recognised at the date of acquisition are no longer be qualified as assets and liabilities under other IFRSs afterwards, the subsequent derecognition of assets and liabilities may result in gain or loss (so called 'Day 2' gain or loss) in financial statements. The resulting 'Day 2' gain or loss does not enhance faithful representation of accounting information since it has no economic interpretation of those gain or loss other than the discrepancies between 2018 Conceptual Framework and Other IFRSs. The issues that the Board concerned related to IAS37 on the matter related to contingent liabilities and IFRIC21 on the matter of levies. The Board considered options to avoid 'Day 2' gain or loss and proposed the exception to recognition principle. The exception would apply to liabilities and contingent liabilities that would be within the scope of IAS37 and IFRIC21 if they were incurred separately rather assumed in a business combination. We agree that the inclusion of exception to recognition principle only in matter related to IAS37 and IFRIC21 limits the scope of exception and solve the current issue to avoid 'Day 2' gain successfully without creating more problems.

We agree with the Board in eliminating the following options for considerations at the moment.

- **Postponing the updates:** This option is not preferred for the aforementioned reason specified in responses to question 1(a) regarding having multiple references in IFRSs.
- **Adding subsequent measurement and accounting requirements to IFRS3:** This option is also not preferred since adding the subsequent recognition and measurement of liabilities assumed from business combination in IFRS3 may result in inconsistency and conflict with other related IFRSs. Two identical transactions may be treated differently if one resulted from business combination and

another resulted from other types of transaction. Comparability may be impaired; thus, a faithful representation should be of a concern.

- **Changing the IFRS3 recognition principle for assets and liabilities that would be within the scope of other IFRSs if acquired or incurred separately:** This option will affect wider ranges of assets and liabilities and may result in other unintended consequences.

Responses to Question 1(c):

We agree with the Board's proposal to explicitly prohibit the recognition of contingent assets at the acquisition date. Consistent with authoritative guidance on the issue of contingent assets stated in IAS37 para. 31-34, contingent assets should not be recognised in financial statements (IAS37 para. 31). Since the occurrence or non-occurrence of future events is uncertain, recognition of contingent assets may result in recognition of income that may not be realized in the future. Have the contingent assets be recognised, the resulting recognition of income would not enhance prudence of the accounting information.

The proposed amendment on this issue does not fundamentally change any practices in business combinations. The Board's proposal to include paragraph that explicitly prohibit the recognition of contingent assets clarify the issue and enhance consistency in the financial reporting of the issue.

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

TFAC: None.