List of Submissions for ITC30: *Request for Comment on IASB Request for Information on Post-implementation Review: IFRS 3 Business Combinations*

1	ABS [Submission received via email]
2	University of Technology Sydney
3	Representatives of the Australian Accounting Profession (CPA Australia and The Institute of Chartered Accountants in Australia)
4	Westworth Kemp

From: Brigitte Batschi [mailto:brigitte.batschi@abs.gov.au]
Sent: Wednesday, 30 April 2014 5:03 PM
To: AASB Mailbox
Cc: Ben Loughton; Luisa Ryan; Jonathon Khoo; Jenny Foster; Brigitte Batschi
Subject: Notification: Australian Bureau of Statistics comments on Post-Implementation Review: IFRS 3 Business Combinations [SEC=UNCLASSIFIED]

Dear Chairman of the Australian Accounting Standards Board,

The Australian Bureau of Statistics (ABS) wishes to thank the Australian Accounting Standards Board (AASB) for the opportunity to attend the AASB Discussion Forum on IFRS 3 Business Combinations on 29 April 2014 as an observer, and to provide comments on the IASB *Request for information on the Post-Implementation Review: IFRS 3 Business Combinations*.

The ABS has no comment on the specific questions contained in the *Request for information on the Post-Implementation Review: IFRS 3 Business Combinations*. However the ABS would like to state the following:

- The ABS encourages the separate recording of intangible assets as this treatment aligns with the statistical objectives contained in the *System of National Accounts, 2008*;
- The ABS values all assets and liabilities at current market values; and
- For information, the following excerpt outlines the statistical treatment of goodwill as stated in paragraphs 10.196 - 10.199 of the *System of National Accounts, 2008*. Goodwill is not currently identified as a separate line item in ABS outputs due to data limitations.

Goodwill and marketing assets

10.196 Potential purchasers of an enterprise are often prepared to pay a premium above the net value of its individually identified and valued assets and liabilities. This excess is described as "goodwill" and reflects the value of corporate structures and the value to the business of an assembled workforce and management, corporate culture, distribution networks and customer base. It may not have value in isolation from other assets, but it enhances the value of those other assets. Looked at another way, it is the addition to the value of individual assets because they are used in combination with each other.

10.197 Goodwill cannot be separately identified and sold to another party. The value has to be derived by deducting from the sale value of the corporation the value of assets and liabilities classified elsewhere within the asset boundary of the SNA. (In practice, since it is estimated as a residual, an estimate of goodwill will also reflect errors and omissions in the valuation of other assets and liabilities.)

10.198 As well as residual errors, the value of goodwill may include the value to the corporation of items known as marketing assets. ***Marketing assets consist of items such as brand names, mastheads, trademarks, logos and domain names***. A brand can be interpreted as far more than just a corporate name or logo. It is the overall impression a customer or potential customer gains from their experience with the company and its products. Interpreted in that wider sense it can also be seen to encompass some of the characteristics of goodwill such as customer loyalty.

10.199 ***The value of goodwill and marketing assets is defined as the difference between the value paid for an enterprise as a going concern and the sum of its assets less the sum of its liabilities, each item of which has been separately identified and valued.*** Although goodwill is likely to be present in most corporations, for reasons of reliability of measurement it is only recorded in the SNA when its value is evidenced by a market transaction, usually the sale of the whole corporation. Exceptionally, identified marketing assets may be sold individually and separately from the whole corporation in which case their sale should also be recorded under this item.

Kind regards,
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2 May 2014

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The Chairman
International Accounting Standards Board
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Request for Comment on IFRS 3: Business Combinations

Dear Sirs

In relation to the above invitation I would like to comment as follows.

Question 2: There are benefits of having separate regulations addressing business combinations and asset acquisitions provided:

- They provide detail guidance not separately relevant;
- Are consistent (not contradictory) on their requirements; and,
- Do not provide the opportunity and incentive for regulatory arbitrage.

This is not seen as particularly problematic in relation to IFRS 3, except in so much as it may allow separate asset acquisitions to be aggregated as a business combination. In these circumstances where the fair value of assets acquired exceeds cost, the excess is able to be recognized as a gain in the income statement. This is in my opinion the equivalent of allowing asset revaluation increments through the income statement, and revaluation of assets in circumstances where this may not otherwise be permitted (i.e., identifiable intangible assets). It may also create the incentive for regulatory arbitrage and the overstatement of asset fair values. This is probably best addressed by recognizing gains on business combinations through OCI, which would be analogous to the treatment of asset revaluations.

Questions 3 and 4: I find this question highly problematic. Intuitively I believe that acquired assets should be properly identified for users of financial users and this information should be highly relevant to financial statement users. Unfortunately, there is little incentive to recognize identifiable intangible assets as long as there is no disincentive to recognize goodwill such as that which was created by mandatory amortization of goodwill. If the aim of the regulation was to achieve more recognition of identifiable intangible assets this should be reconsidered. Furthermore, the treatment of identifiable intangibles would need to be better developed, otherwise analysts and other users of financial statements will continue to 'back out' intangibles (balance sheet and income statement) from financial statements.

Problematically, while there is a substantial academic literature identifying identifiable intangible assets as value relevant for equity investors, this is most likely a consequence of historically recognized assets. In contrast there is evidence that the recognition of identifiable intangible assets is associated with higher acquisition premiums, in much the same way as pooling of interest was associated with higher acquisition premiums in the US, and this has been attributed to overpayment. Consistent with this conclusion there is no evidence of an association between acquired identifiable intangible assets and post acquisition performance (upto 3 years) either before or after Australia transitioned to IFRS. This result may be a consequence of decisions to recognize goodwill as opposed to identifiable intangible assets, but it does question the recognition of such assets. A consequent issue is that while the cost of acquired identifiable intangible assets might be determined by a transaction, whether the value is more reliable than any other valuation as suggested by IAS 38 is highly suspect.

Accordingly, it is difficult to see how the current distinction between goodwill and identifiable intangible assets is achieving the outcome of greater financial statement relevance. This might be addressed by increasing the incentive to recognize identifiable intangible assets appropriately (i.e., mandatory amortization of goodwill). A further issue also arising from the treatment afforded to gains on business combinations is that overvaluation of identifiable intangible assets would be recognized as gains in the income statement.

Question 8: An area of uncertainty that exists in the disclosures associated with business combinations is the extent to which the disclosed fair value of assets acquired in a business combination differs from the historic book value of the assets in the acquired business. This would be relevant in highlighting the extent to which the value of assets had been increased as a result of the transaction. While clearly different, this might be considered sufficiently similar to a revaluation as to require separate disclosure. This comment is motivated by corporate restructurings where assets where recognized at a cost significantly in excess of historic values and these where then labeled cost, whereas revalued amount may have been more appropriate.

Yours faithfully

Peter Wells

8 May 2014

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
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Email: standard@aasb.gov.au

Dear Kevin

Invitation to Comment – Post-implementation Review: AASB 3 Business Combinations

Thank you for the opportunity to comment on the above Invitation to Comment. CPA Australia and the Institute of Chartered Accountants Australia (the Institute) have considered it and our comments are set out below.

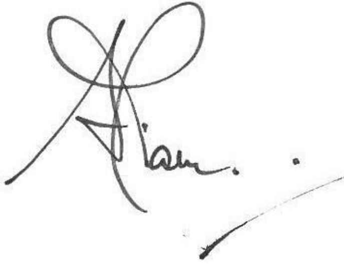
CPA Australia and the Institute represent over 210,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

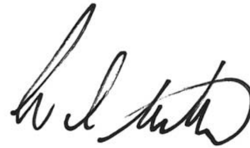
Overall, we believe the fundamental principles and concepts that form the basis for AASB 3 remain sound. However, the impact of other accounting standards (AASB 112 *Income Taxes*, AASB 116 *Property, Plant and Equipment*, AASB 136 *Impairment of Assets* and AASB 138 *Intangible Assets*) on AASB 3 and its application remains problematic. We suggest an examination of the relationships between these standards and AASB 3 to identify and address existing inconsistencies.

We also believe there are interpretative issues arising from the definition of a business, including what constitutes the boundaries of a business. In addition to providing supplementary implementation guidance and examples to address this issue, we also suggest examination of the existing implementation guidance and examples to ensure such interpretative issues are properly addressed.

Our detailed response to the questions posed in the invitation to comment are contained in the attached IASB submission.   If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au or Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au.

Yours sincerely





Alex Malley
Chief Executive
CPA Australia Ltd

Lee White
Chief Executive Officer
Institute of Chartered Accountants in Australia

8 May 2014

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
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Via online submission: www.ifrs.org

Dear Hans

Request for Information – Post-implementation Review: IFRS 3 Business Combinations

Thank you for the opportunity to comment on the above Request for Information. CPA Australia and the Institute of Chartered Accountants Australia (the Institute) have considered it and our comments are set out below.

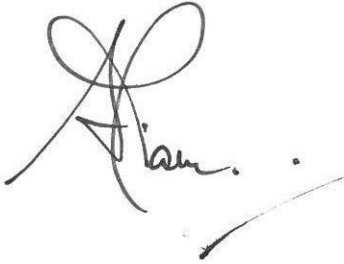
CPA Australia and the Institute represent over 210,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

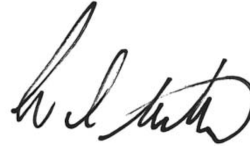
Overall, we believe the fundamental principles and concepts that form the basis for IFRS 3 remain sound. However, the impact of other accounting standards (IAS 12 *Income Taxes*, IAS 16 *Property, Plant and Equipment*, IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*) on IFRS 3 and its application remain problematic. We suggest an examination of the relationships between these standards and IFRS 3 to identify and address existing inconsistencies.

We also believe there are interpretative issues arising from the definition of a business, including what constitutes the boundaries of a business. In addition to providing supplementary implementation guidance and examples to address this issue, we also suggest examination of the existing implementation guidance and examples to ensure such interpretative issues are properly addressed.

Our detailed response to the questions posed in the discussion paper is contained in the attached appendix. If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au or Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au.

Yours sincerely





Alex Malley
Chief Executive
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Lee White
Chief Executive Officer
Institute of Chartered Accountants in Australia

Question 1—Your background and experience

Please refer to our opening paragraphs in the cover letter.

Question 2—Definition of a business

(a) Are there benefits of having separate accounting treatments for business combinations and asset acquisitions? If so, what are these benefits?

(b) What are the main practical implementation, auditing or enforcement challenges you face when assessing a transaction to determine whether it is a business? For the practical implementation challenges that you have indicated, what are the main considerations that you take into account in your assessment?

There is benefit in having separate accounting treatments for business combinations and asset acquisitions as it provides users with a better understanding of the underlying transactions. If acquired assets were accounted for in the same way as a business combination, this would not provide users with relevant and useful information.

The main implementation issue that our members have identified arises when applying the definition of a business, including what constitutes the boundaries of a business. We consider that this definition is not sufficiently clear and we suggest additional implementation guidance and examples to address this issue. This could include considering the amendment of paragraph B10 to clarify that an acquired set of inputs and processes in the development stage should be capable of producing the intended outputs and outcomes in order to satisfy the definition of a business. We also suggest examination of the existing implementation guidance and examples provided to ensure any interpretative issues are properly addressed. This will help reduce variability and difficulties encountered when assessing whether or not a business exists.

Question 3—Fair value

(a) To what extent is the information derived from the fair value measurements relevant and the information disclosed about fair value measurements sufficient? If there are deficiencies, what are they?

(b) What have been the most significant valuation challenges in measuring fair value within the context of business combination accounting? What have been the most significant challenges when auditing or enforcing those fair value measurements?

(c) Has fair value measurement been more challenging for particular elements: for example, specific assets, liabilities, consideration etc?

Fair value information is generally considered relevant and sufficient. We acknowledge there has been improvement in valuation techniques and experience since the IFRS 3 requirements were first introduced.

Some of the challenges that have been identified in measuring fair value in business combinations include:

- the re-measurement of acquired assets and liabilities on day two for provisions, uncertain tax positions and inventory, because of the limited guidance provided
- measuring intangibles, as many of them are not valued for any other purpose and are unlikely to be traded
- whose credit risk to use when measuring the fair value of acquired debt
- the removal of guidance on fair value measurement that was in the previous version of IFRS 3, which many members found useful and would like to see it added in the guidance accompanying the standard
- the fair value measurement of contingent liabilities is extremely challenging as a valuation involves significant subjectivity that could give rise to a range of values.

Question 4— Separate recognition of intangible assets from goodwill and the accounting for negative goodwill

(a) Do you find the separate recognition of intangible assets useful? If so, why? How does it contribute to your understanding and analysis of the acquired business? Do you think changes are needed and, if so, what are they and why?

(b) What are the main implementation, auditing or enforcement challenges in the separate recognition of intangible assets from goodwill? What do you think are the main causes of those challenges?

(c) How useful do you find the recognition of negative goodwill in profit or loss and the disclosures about the underlying reasons why the transaction resulted in a gain?

We support the separate recognition of what is actually bought (in terms of all assets, including intangibles) as the conceptually correct approach in a business acquisition. Users find useful information on the values attributed to components that make up the purchase price of a business. Accordingly, intangible assets that are acquired as part of a business that meet the definition of an asset should rightly be recognised in the balance sheet at the date of acquisition.

The main challenges in recognition are in relation to non-contractual customer relationships, reacquired rights and accounting for an unfavourable contract that isn't onerous. Further guidance on these areas would be useful.

In relation to negative goodwill, our members' experience suggests that often it is a result of a transaction that is priced at a discount because a restructure will take place afterwards. Although recognising this gain isn't ideal, we do not consider there to be any other alternative that would be more acceptable.

Question 5— Non-amortisation of goodwill and indefinite-life intangible assets

(a) How useful have you found the information obtained from annually assessing goodwill and intangible assets with indefinite useful lives for impairment, and

why?

(b) Do you think that improvements are needed regarding the information provided by the impairment test? If so, what are they?

(c) What are the main implementation, auditing or enforcement challenges in testing goodwill or intangible assets with indefinite useful lives for impairment, and why?

There are mixed views about the usefulness of the information obtained from an annual impairment test. Those who support impairment testing consider amortisation to be arbitrary and not useful to users. Those who support amortisation believe that the impairment test can be easily manipulated to get the desired result and that the cost to perform the test outweighs any benefit. Also, as acquired goodwill is eventually consumed and replaced with internally generated goodwill, it is better to amortise over a fixed period so that goodwill is completely written off over a period after which it is no longer relevant to be recognised. Under the impairment testing model, if a goodwill balance still exists after a certain period (e.g. 15+ years) after the transaction occurred, there is a possibility that it has been replenished by internally generated goodwill and should therefore no longer be recognised.

Although returning to amortisation appears to solve many of the issues with impairment testing, we do not see any benefit in further diverging from US GAAP, given that it currently requires impairment testing. We therefore recommend that the IASB work with the FASB to improve the current impairment model.

Question 6—Non-controlling interests

(a) How useful is the information resulting from the presentation and measurement requirements for NCIs? Does the information resulting from those requirements reflect the claims on consolidated equity that are not attributable to the parent? If not, what improvements do you think are needed?

(b) What are the main challenges in the accounting for NCIs, or auditing or enforcing such accounting? Please specify the measurement option under which those challenges arise. To help us assess your answer better, we would be grateful if you could please specify the measurement option under which you account for NCIs that are present ownership interests and whether this measurement choice is made on an acquisition-by-acquisition basis.

The feedback we have received from our members, in relation to NCI, is that the percentage allocation method is the preferred measurement option. Therefore, we suggest removing the option to just requiring the percentage allocation method.

An issue that requires clarification is whether or not the mandatory purchase of any remaining NCI is a liability.

Question 7— Step acquisitions and loss of control

(a) How useful do you find the information resulting from the step acquisition guidance in IFRS 3? If any of the information is unhelpful, please explain why.

(b) How useful do you find the information resulting from the accounting for a parent's retained investment upon the loss of control in a former subsidiary? If any of the information is unhelpful, please explain why.

The gains currently recognised in step acquisitions do not always provide useful information. We consider that this accounting treatment is giving rise to a mixed measurement model, given the choice available in respect of measuring NCI, which is not available for stepped acquisitions. The cost accumulation model was a better method to account for step acquisitions and we would prefer to see this added back and the current guidance removed.

Question 8—Disclosures

(a) Is other information needed to properly understand the effect of the acquisition on a group? If so, what information is needed and why would it be useful?

(b) Is there information required to be disclosed that is not useful and that should not be required? Please explain why.

(c) What are the main challenges to preparing, auditing or enforcing the disclosures required by IFRS 3 or by the related amendments, and why?

Feedback we have received indicates that analysts are interested in information on the net impact of the business combination on the acquirer's balance sheet.

The disclosure often cited as not being useful is the predictive number that is required under paragraph B64(q)(ii), as it is an arbitrary number that does not benefit users.

Some clarification would be useful about the extent of comparative information needed.

As the IASB is currently working on the disclosure framework project, we recommend that any additional disclosures should be considered as part of the overall project.

Question 9—Other matters

Are there other matters that you think the IASB should be aware of as it considers the PiR of IFRS 3? The IASB is interested in:

- **(a) understanding how useful the information that is provided by the Standard and the related amendments is, and whether improvements are needed, and why;**
- **(b) learning about practical implementation matters, whether from the perspective of applying, auditing or enforcing the Standard and the related amendments; and**
- **(c) any learning points for its standard-setting process.**

We believe the fundamental principles and concepts that form the basis for IFRS 3 remain sound. However, the impact of other accounting standards (IAS 12 *Income Taxes*, IAS 16 *Property, Plant and Equipment*, IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*) on IFRS 3 and its application remain problematic. Question 5 specifically discusses IAS 36. We suggest an examination of the relationships between these standards and IFRS 3 to identify and address inconsistencies.

Further, we consider that the classification differences as to whether payments to a former owner are called contingent consideration or remuneration continue to cause difficulties in the consistent application of the standard.

We would suggest that any amendments are considered jointly by FASB and IASB, in order to keep the standard as internationally comparable as possible.

Question 10—Effects

From your point of view, which areas of IFRS 3 and related amendments:

- **(a) represent benefits to users of financial statements, preparers, auditors and/or enforcers of financial information, and why;**
- **(b) have resulted in considerable unexpected costs to users of financial statements, preparers, auditors and/or enforcers of financial information, and why; or**
- **(c) have had an effect on how acquisitions are carried out (for example, an effect on contractual terms)?**

As noted earlier, the main costs to users are in relation to fair value measurement and impairment testing. We have seen more independent experts involved in these calculations over time, which has increased costs.

WESTWORTH KEMP
CONSULTANTS

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12 May 2014

The Chairman
The International Accounting Standards Board
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CC Australian Accounting Standards Board

By email

Dear Sir

Re: Post-implementation Review: IFRS 3 Business Combinations

Westworth Kemp Consultants (www.westworthkemp.com.au) value the opportunity to provide feedback into the post-implementation review of IFRS 3.

General introductory comments

The questions raised on the post implementation review of IFRS 3 would be easier to answer if there was already a generally accepted conceptual foundation for accounting, answering such questions as: what is a balance sheet for? Is it a repository of unamortised cost (historical cost); is it to be used for bank security or to give owners a sense of the values that might be achieved if the entity had to be sold as bits; is it a dynamic statement of anticipated cash flows (fair value) and can or should it give alternative use values if higher than value in use to illustrate lost opportunities? The answers to these questions tend to dictate one's response to other accounting issues. For business combinations the commercially useful answer in a dynamic business is either fair value or value in use, but there is also a place for security values and alternative use values. Should these be items for disclosure?

Question 1 – who we are and our interest in the project

We are a boutique consultancy, based in Sydney, Australia, specialising in financial reporting, assurance and compliance issues, particularly in the context of litigation and dispute resolution and we also provide advice to clients on the application of financial reporting standards. We do not prepare financial statements, but we have analysed financial statements prepared under the 2004 version of IFRS 3 and advised clients on the application of the 2008 version.

Question 2 – Definition of a business

(a) Are there benefits of having separate accounting treatments for business combinations and asset acquisitions? If so, what are these benefits?

Separate accounting treatments for business combinations and asset acquisitions in their simplest form are unavoidable. If goodwill is "An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised" (AASB Glossary) there is no place for it in an asset acquisition, and so the consideration paid for the asset must be the agreed value of that asset. If that amount is greater than fair value, it needs to be written off as impairment, as the asset would be held at greater than its recoverable amount. A business combination, however, involves a bundle of assets and liabilities and opens the possibility of the existence of goodwill.

(b) What are the main practical implementation, auditing or enforcement challenges you face when assessing a transaction to determine whether it is a business? For the practical implementation challenges that you have indicated, what are the main considerations that you take into account in your assessment?

In some cases, it is hard to decide whether one is dealing with a single asset or a business. The prime example is a complex building held as an investment property - as the building comprises the structure, machinery with in it, maintenance staff and something akin to goodwill if that building is being managed by a well-known manager like Westfield. Applying the guidance, there is no clear line differentiating an asset from a business, giving rise to opportunities for structuring and obtaining a preferred accounting treatment. In our view the definition is quite clear, but paragraph B7 of the Guidance reduces that clarity and should be removed.

Question 3 – Fair value

(a) To what extent is the information derived from the fair value measurements relevant and the information disclosed about fair value measurements sufficient? If there are deficiencies, what are they?

Information derived from fair value measurements is relevant within the terms of the conceptual framework, particularly when the acquisition relates to a business that has not changed hands in many years and has been using historical cost information. Deficiencies in fair value measurement include "Day 2" issues, different experts having a range of opinions of fair value methodology and the objectivity and quality of data inputs to the model. These deficiencies do not however ultimately outweigh the benefits of some sort of contemporaneous value, whether market value or value in use. Fair value does establish for users a means of measuring the transaction and its implications for the entity in which they are investing.

(b) What have been the most significant valuation challenges in measuring fair value within the context of business combination accounting? What have been the most significant challenges when auditing or enforcing those fair value measurements?

Ascertaining the fair value of unusual assets always presents practical problems, and while specialised valuers exist, smaller entities may resist paying for valuations. Practical problems include: isolating reliable revenue streams on which to base the valuation model; attributing costs; assessing value in the context of the new owner's strategies; and assessing contingent outcomes. Another challenge we have seen, however, is a reluctance on the part of management to accept that the fair value of assets acquired in a business combination may in certain circumstances fall dramatically not long after acquisition. This is however a human problem that cannot be solved by accounting standards.

(c) Has fair value measurement been more challenging for particular elements; for example, specific assets, liabilities, consideration, etc?

In our experience, establishing the fair value of liabilities and contingent liabilities can be particularly challenging. The concept of the fair value of a liability or contingent liability being the amount it would be reasonable to pay a third party to assume that liability presents challenges where there are differing views as to how remote the contingency actually is. A further challenge is the inconsistency between the recognition of probability-based liabilities for contingencies in an acquisition situation, but not in stand alone accounts. We suspect the answer to this conundrum may lie in the liability recognition criteria in the conceptual framework. Once the recognition criteria are settled, a liability should qualify for recognition or not, regardless of the context in which it is recognised.

The measurement of contingent consideration without the ability to alter the goodwill later has also been challenging, but has probably been beneficial overall as it forces management to think carefully about what they really think the consideration, including contingent elements, is worth in today's terms.

Question 4 – goodwill and indefinite life intangibles

(a) Do you find the separate recognition of intangible assets useful? If so, why? How does it contribute to your understanding and analysis of the acquired business? Do you think changes are needed and, if so, what are they and why?

The encouragement to separately recognise intangibles has been generally helpful as in our experience it has encouraged acquirers and subsequent decision makers to analyse more deeply exactly what they are buying in a business combination. For example, the reasoning of "We paid x for a brand – is it performing, can it be optimised, could/should we sell it, are we good at making but not selling etc are all questions that can flow from more detailed information about intangible assets acquired.

(b) What are the main implementation, auditing or enforcement challenges in the separate recognition of intangible assets from goodwill? What do you think are the main causes of those challenges?

We have seen two main challenges. The first is that having teased out the identifiable intangibles, they then need to be assigned their fair value. In the case of some assets of a type that is not often sold, such as customer lists, this can be difficult. Furthermore, the value of a good customer list in the hands of a prior owner can quickly dissipate under new management. The second is that there is inconsistency between how such identifiable intangible assets are treated on acquisition and how they are treated in standalone financial statements. Allowing an asset to be recognised on acquisition but not within the standalone financial statements of the creator of the asset is inconsistent. As with liabilities, application of the recognition criteria for assets should be consistent across entities.

(c) How useful do you find the recognition of negative goodwill in profit or loss and the disclosures about the underlying reasons why the transaction resulted in a gain?

We have encountered no difficulties with this aspect of the standard. We have difficulty understanding the concept of negative goodwill in the context of fair market valuations.

Question 5 – non-amortisation of goodwill and indefinite intangibles

(a) How useful have you found the information obtained from annually assessing goodwill and intangible assets with indefinite useful lives for impairment, and why?

Impairment of goodwill and intangibles is good in theory, but in practice there seems to be a lag between events giving rise to impairment and the recognition of that impairment in the financial statements. We are aware of many instances where this has occurred and the market reflected a reduction in company value before impairment was recognised, including instances where impairment was only recognised shortly before the entity ceased to trade.

(b) Do you think that improvements are needed regarding the information provided by the impairment test? If so, what are they?

We are starting to question whether replacing amortisation with impairment has been effective and has improved the quality of financial reporting.

(c) What are the main implementation, auditing or enforcement challenges in testing goodwill or intangible assets with indefinite useful lives for impairment, and why?

The main challenge appears to be the complexity of the impairment calculation. Amortization of goodwill may not have produced such reliable and relevant information, but it was simple to apply. It was a practical answer reflecting the fact that without amortisation acquired goodwill is gradually replaced by internally generated goodwill. Traditionally internally generated goodwill has not been recognised because it is incapable of objective measurement. We are seeing the impairment of acquired goodwill as being subject to the same sorts of frailties, such as management optimism and the lack of an objective market value for the business acquired, once it has been absorbed by the acquirer.

Question 6 – non-controlling interests

(a) How useful is the information resulting from the presentation and measurement requirements for NCIs? Does the information resulting from those requirements reflect the claims on consolidated equity that are not attributable to the parent? If not, what improvements do you think are needed?
(b) What are the main challenges in the accounting for NCIs, or auditing or enforcing such accounting? Please specify the measurement option under which those challenges arise.

To help us assess your answer better, we would be grateful if you could please specify the measurement option under which you account for NCIs that are present ownership interests and whether this measurement choice is made on an acquisition-by-acquisition basis.

Paragraph 19(b) is consistent with Australian practice and reflects the claims on consolidated equity that are not attributable to the parent. It also provides a relatively simple and auditable method of arriving at NCI.

(a) How useful do you find the information resulting from the step acquisition guidance in IFRS 3? If

any of the information is unhelpful, please explain why.

(b) How useful do you find the information resulting from the accounting for a parent's retained investment upon the loss of control in a former subsidiary? If any of the information is unhelpful, please explain why.

We welcome the introduction of clear requirements in this area hinging on the passing of control.

Question 8 – disclosures

(a) Is other information needed to properly understand the effect of the acquisition on a group? If so, what information is needed and why would it be useful?
(b) Is there information required to be disclosed that is not useful and that should not be required? Please explain why.
(c) What are the main challenges to preparing, auditing or enforcing the disclosures required by IFRS 3 or by the related amendments, and why?

In our view the prescribed disclosures relating to acquisitions are helpful. We have encountered financial statements in the course of our work where disclosures relating to acquisitions are missing and have felt the lack of that information.

Question 9 – other matters

Are there other matters that you think the IASB should be aware of as it considers the PiR of IFRS 3?
The IASB is interested in:
(a) understanding how useful the information that is provided by the Standard and the related amendments is, and whether improvements are needed, and why;
(b) learning about practical implementation matters, whether from the perspective of applying, auditing or enforcing the Standard and the related amendments; and
(c) any learning points for its standard-setting process.

We have seen instances where consolidated information generated as a result of a business combination may not be the most useful information for all the users. Summarised financial information about material subsidiaries in which there is a material NCI would give all stakeholders useful information about both that entity and the group. Such disclosure would give more information about the rights in the assets and liabilities underpinning the consolidation. If external parties own 49% of one of your assets, you may control it, but you are subject to constraints as to how you can use that asset and share the benefits derived from it.

There has also been an interesting interaction with the new IFRS 10. Under the new IFRS 10, parent/subsidiary relationships need to be reassessed and from time to time an entity is assessed to be a subsidiary that used to be classified as an associate. The question arises as to whether this re-evaluation of the application of the accounting policy under the new IFRS 10 has to be treated as an acquisition under AASB 3 and how the transitional provisions should be applied when there has been no change in ownership.

Question 10 – effects

From your point of view, which areas of IFRS 3 and related amendments:
(a) represent benefits to users of financial statements, preparers, auditors and/or enforcers of

financial information, and why;

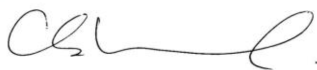
(b) have resulted in considerable unexpected costs to users of financial statements, preparers, auditors and/or enforcers of financial information, and why; or

(c) have had an effect on how acquisitions are carried out (for example, an effect on contractual terms)?

Hitherto, we have noticed fewer changes than we anticipated. Increased costs to preparers are as much due to increased expectations of governance (leading to the use of external valuers, for example) as to changes in the wording of the standard..

If you wish to discuss any of these matters further, please contact me at chris@westworthkemp.com.au.

Yours faithfully



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