AASB Invitation to Comment

ITC 30
February 2014

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

Comments to the AASB by 2 May 2014

Australian Government

Australian Accounting Standards Board

Commenting on this AASB Invitation to Comment

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 2 May 2014. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 30 May 2014. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@aasb.gov.au

Respondents to the IASB are asked to send their comments electronically to the IFRS Foundation website (www.ifrs.org), using the 'Comment on a proposal' page.

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Obtaining a Copy of this AASB Invitation to Comment

This AASB Invitation to Comment is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this AASB Invitation to Comment are available by contacting:

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Australian Accounting Standards Board
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AASB REQUEST FOR COMMENTS

In light of the Australian Accounting Standards Board's (AASB's) policy of incorporating International Financial Reporting Standards (IFRSs) into Australian Accounting Standards applicable to for-profit and not-for-profit entities in the private sector or the public sector, the AASB is inviting comments on any of the questions listed in the Request for Information section of the attached IASB Request for Information document.

Due Date for Comments to the AASB

Comments should be submitted to the AASB by 2 May 2014. This will enable the AASB to consider those comments in the process of formulating its own comments to the IASB. Constituents are also strongly encouraged to send their response to the IASB.

In addition to this Request for Comments, the AASB will hold a discussion forum in Melbourne. The location and date will be detailed on the AASB's website at http://www.aasb.gov.au/News/Upcoming-events.aspx.

January 2014

Request for Information

Post-implementation Review: IFRS 3 Business Combinations

Submissions to be received by 30 May 2014

IASB®

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

Submissions to be received by 30 May 2014

Request for Information *Post-implementation Review: IFRS 3 Business Combinations* is published by the International Accounting Standards Board (IASB) for public consultation only. Submissions need to be received by **30 May 2014** and should be submitted in writing to the address below or electronically using our 'Comment on a proposal' page.

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Introduction

The *IFRS Foundation Due Process Handbook* (the *'Handbook'*) requires that we—the International Accounting Standards Board—conduct a Post-implementation Review (PiR) of each new Standard or major amendment to ensure it is working as intended.[1] IFRS 3 *Business Combinations* is the second of the IASB's Standards to be subject to a PiR.[2]

IFRS 3 was developed within the Business Combinations project. Consequently, we believe that the scope of the PiR should include all the Standards and consequential amendments to other Standards resulting from this project (see further details about the Business Combinations project in the 'Background to IFRS 3 *Business Combinations*' section).[3]

We expect the PiR for IFRS 3 to enable us to assess the effect of the application of IFRS 3 on financial reporting—from the perspective of preparers of financial statements, investors and other users of financial statements, market regulators, the audit profession, accounting standard-setters, valuation specialists and academics.[4] In particular, we aim to assess whether:

- IFRS 3 provides information that is useful to users of financial statements;
- there are areas of IFRS 3 that represent implementation challenges and, as a result, impair the consistent implementation of the requirements; and
- unexpected costs have arisen when preparing, auditing or enforcing the requirements of the Standard or when using the information provided by the Standard.

The *Handbook* frames the performance of PiRs in two phases. The first phase of a PiR consists of an initial assessment of the issues related to the subject of the PiR and consultation with interested parties about those issues. For the purposes of completing the first phase of the PiR on IFRS 3, we have:

- completed a review of publicly available materials, which includes both IASB and third-party documents (for example, the project summary, feedback and effect analysis published when the Standard was issued, submissions to the IFRS Interpretations Committee (the 'Interpretations Committee'), materials from audit firms, from national standard-setters, from regulators and users of financial statements to identify the areas that should be included within the scope of the review);

1 The *IFRS Foundation Due Process Handbook* can be found at: http://www.ifrs.org/DPOC/Documents/2013/Due-Process-Handbook-February-2013.pdf

2 IFRS 8 *Operating Segments* was the first Standard subject to a PiR. The Report and Feedback Statement for that PiR can be found at: http://www.ifrs.org/Current-Projects/IASB-Projects/PIR/IFRS-8/Documents/PIR-IFRS-8-Operating-Segments-July-2013.pdf

3 The scope of this PiR does not cover the accounting for business combinations under common control. The IASB is currently addressing this area through a research project. More information on this research project can be found at: http://www.ifrs.org/Current-Projects/IASB-Projects/Business-Combinations/Pages/Business-Combinations-under-Common-Control.aspx

4 The scope of this PiR is all the Standards and consequential amendments to other Standards resulting from the Business Combinations project. Consequently, references to "IFRS 3" or to "the Standard" in this document should be read as including all the Standards and all the consequential amendments to other Standards resulting from the Business Combinations project.

- contacted users of financial statements, audit firms, valuation specialists, preparers, regulators and national standard-setters to inform them about the PiR process and to ask for their feedback;
- analysed the input obtained from the outreach with preparers and preparer groups in different industry sectors to gain an understanding about any implementation difficulties surrounding the definition of a business;[5]
- carried out a preliminary review of existing academic research and other literature; and
- collated a preliminary list of issues for investigation, based on information received from all the parties contacted.[6]

As a result of the work carried out during this phase, we have identified the main questions that will be addressed in the PiR of IFRS 3. This Request for Information (RfI) includes those questions and forms part of our formal request to gather the information from everyone in the IFRS community. The process is an open one—all submissions received will be published on the IASB's website.

This public consultation initiates the second phase of the PiR. As set out in the *Handbook*, during the second phase we will consider the submissions received along with information gathered through other consultative activities (for example, information from workshops and individual interviews and by reviewing academic research on the effect of applying IFRS 3 on financial reporting).

On the basis of the submissions received and the information gathered during the second phase of the PiR, we will present our findings in a Report and Feedback Statement and we will set out the steps we plan to take, if any, as a result of the review.

Depending on the nature of any findings, these steps could lead to the IASB deciding to:

- retain IFRS 3 as issued;
- continue to monitor the implementation of IFRS 3, if the results of the PiR are inconclusive; or
- revise IFRS 3 to remedy problems identified by the PiR. Any standard-setting response (from an annual improvement or narrow-scope amendment to a proposal for a standards-level project to assess the accounting or disclosure requirements) would be discussed as part of the IASB's agenda-setting process.

This PiR is an opportunity for us to assess the effects of the requirements of the business combinations guidance in IFRS. This may lead to the identification of areas of IFRS that would benefit from clarification or amendment. Areas of IFRS that are identified for possible improvement will be considered in the light of other competing needs for projects, taking into consideration the demands on the resources of the IASB and of its stakeholders. The next broad-scope assessment of the IASB's agenda will take place in 2015 when the IASB undertakes its next agenda consultation.

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5 The input obtained from the Interpretations Committee's staff was presented at the May 2013 Interpretations Committee's meeting (see Agenda Papers 6 and 6A). Those papers can be found at: http://www.ifrs.org/Meetings/Pages/InterpretationsMay2013.aspx).

6 Agenda Paper 13A presented to the IASB in its November 2013 meeting summarises the main issues identified during Phase I of the PiR as well as the preliminary academic research review. That paper can be found at: http://www.ifrs.org/Meetings/Pages/IASB-Nov-13.aspx.

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The questions we are asking about the application of business combinations accounting are on pages 10–19. To put these questions into context, we have provided the background to the Business Combinations project below.

Background to IFRS 3 *Business Combinations*

Project history and project objective

The Business Combinations project was part of our initial agenda when the IASB was formed in 2001. Accounting for business combinations had been identified previously as an area of significant divergence within and across jurisdictions. Extensive work on the topic had been undertaken in the previous decade by national standard-setters and our predecessor, the International Accounting Standards Committee (IASC).

The US national standard-setter, the Financial Accounting Standards Board (FASB), was also conducting a project on business combinations. In June 2001 the FASB concluded its first phase of that project by issuing SFAS 141 *Business Combinations* and SFAS 142 *Goodwill and Other Intangible Assets*, which removed the merging (or pooling) of interests method and replaced amortisation of goodwill with a goodwill impairment test. We received numerous requests from Europe and Australia to make similar changes to the accounting for goodwill, because entities applying IFRS believed themselves to be at a disadvantage to those using US generally accepted accounting principles ('US GAAP').

The project we started in 2001 reviewed IAS 22 *Business Combinations* (revised in 1998) with the objective of improving the quality of, and seeking international convergence on, the accounting for business combinations. We decided to address the accounting for business combinations in two phases. The first phase was short-term, addressing pooling of interests and goodwill impairment and amortisation in a replacement for IAS 22. The second phase took a broader look at business combinations accounting. We started the two phases at about the same time, which meant that they ran in parallel until the first phase was completed. Before the first phase had been completed we had already finished our analysis of three areas: the initial measurement of identifiable assets acquired and liabilities assumed in a business combination; the recognition of liabilities for terminating or reducing the activities of an acquiree; and the accounting for bargain purchases. We decided to incorporate those decisions into the new Standard, IFRS 3 *Business Combinations*, which was issued in March 2004, bringing the first phase of the project to a conclusion.

We worked with the FASB on the second phase. We concluded that sharing our resources and debating the issues together was the best way for each to improve the application of the acquisition method and to ensure a level playing field by eliminating as many of the differences between IFRS 3 (2004) and SFAS 141 as possible. The changes we incorporated into IFRS 3 in 2004 moved IFRS ahead of US GAAP, so this phase also provided the FASB with the opportunity to catch up with the decisions already incorporated into IFRS. The second phase took a broader look at business combinations accounting, and consequently addressed aspects of merger and acquisition activity for which there was no guidance. We also examined the requirements that we had carried forward from IAS 22 into IFRS 3 (2004) without reconsideration. The continuation of our work in the second phase of the project

gave both boards the opportunity to address the areas of IFRS 3 (2004) and IAS 27 *Consolidated and Separate Financial Statements*[7], as revised in 2003, (and the US equivalents) that we knew required additional work.

We issued a revised version of IFRS 3 (2004) and an amended version of IAS 27 in 2008. The FASB issued SFAS 141 (revised 2007) *Business Combinations* and amended SFAS 160 *Noncontrolling Interests in Consolidated Financial Statements*.

Figure 1 illustrates the main standard-setting decisions made by the IASB during the Business Combinations project and the Appendix provides a more detailed description of the accounting changes brought about by the requirements in IFRS 3 (2004) and IFRS 3 (2008) and the main amendments to other Standards.

7 IAS 27 was amended in 2011 as a result of the IASB's project on consolidation. IFRS 10 *Consolidated Financial Statements*, issued in 2011, addresses the principle of control and the requirements relating to the preparation of consolidated financial statements. As a result, the amendments brought to IAS 27 (2008) by the Business Combinations project are included in IFRS 10. IAS 27 (2011) contains requirements relating only to separate financial statements.

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Figure 1—The Business Combinations project

2001	Review of IAS 22 *Business Combinations* starts	**First phase**
December 2002	Exposure Draft 3 *Business Combinations* was published together with an Exposure Draft of related amendments to IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*	
April 2003	Comment deadline—136 comment letters were received	
March 2004	IFRS 3 *Business Combinations* and revised versions of IAS 36 and IAS 38 were issued	
	Main changes: • the **acquisition method** is the only method of accounting for business combinations (BCs) (pooling of interests is no longer permitted). • **separate recognition of liabilities for terminating or reducing activities** of the acquiree and **contingent liabilities** only when those are liabilities of the acquiree at the acquisition date in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (previously they were included as part of the cost of acquisition). • **separate recognition of intangible assets from goodwill.** Probability recognition criterion for intangible assets acquired in BCs always considered to be satisfied. Fair value can normally be measured with sufficient reliability for intangible assets to be recognised separately from goodwill. • **indefinite-lived intangible assets** and **goodwill** should not be amortised but **tested annually for impairment**. • **negative goodwill** is recognised by the acquirer in **profit or loss**.	

continued...

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<table>
<tr><th colspan="3">Figure 1—The Business Combinations project</th></tr>
<tr><td>June
2005</td><td>Exposure Draft of Proposed Amendments to IFRS 3 Business Combinations was published together with the Exposure Draft of Proposed Amendments to IAS 27 Consolidated and Separate Financial Statements</td><td rowspan="2">Second phase jointly with FASB</td></tr>
<tr><td>October
2005</td><td>Comment deadline—more than 280 comment letters were received</td></tr>
<tr><td rowspan="2">January
2008</td><td colspan="2">IFRS 3 Business Combinations (as revised in 2008) and amendments to IAS 27 Consolidated and Separate Financial Statements (as amended in 2008) were issued</td></tr>
<tr><td colspan="2">Main changes:
• BCs involving only mutual entities and BCs achieved by contract alone are included within the scope of IFRS 3.
• acquisition-related costs are expenses and contingent consideration is recognised at the acquisition date at its fair value with changes in the fair value of the liability recognised in accordance with other applicable Standards (those changes would usually be recognised in profit or loss).
• non-controlling interests (NCIs) are measured at either fair value or the present ownership instruments’ proportionate share in the recognised amounts of the acquiree’s net identifiable assets.
• measurement of goodwill in a step acquisition was simplified, acquisitions or disposals of NCIs were required to be accounted for as equity transactions and the requirement to attribute total comprehensive income applicable to NCIs, which could lead to NCIs having a deficit balance.
• aspects for which there was no guidance were addressed: accounting for reacquired rights, indemnification assets, leases and insurance contracts and contingent liabilities.</td></tr>
</table>

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Request for Information

The IASB requests information on any aspect of the application of IFRS 3 and of any of the consequential amendments to other Standards resulting from the Business Combinations project.[8]

Information is most helpful to us, in our assessment of the effect of applying IFRS 3, if it is supported by examples from published financial statements or other relevant evidence.

You do not have to answer every question and you are encouraged to provide information on any additional matters that you think are relevant to our review of the application of IFRS 3.

An important part of the period in which IFRS 3 has been effective has been affected by the global financial crisis that started in 2007. When answering these questions, please consider whether your experience with the Standard may have been affected by the global financial crisis. If it has, please explain how.

We will consider all submissions received by **30 May 2014**. We will make our assessment on the merits of the information provided and not on the number of responses to each question.

1. Your background and experience

It is easier for us to understand the information that you give us if we know what your role is with respect to financial reporting and what your experience is in accounting for business combinations.

If you work in a non-IFRS environment your input is still useful to us—but we would like to know what your current GAAP to account for business combinations is so that we can assess your information within that context.

8 Questions of this Request for Information relating to aspects dealing with the implementation, audit, enforcement and provision of useful information of IFRS 3 should be extended to all Standards and to all consequential amendments to other Standards resulting from the Business Combinations project.

Question 1

Please tell us:

(a) about your role in relation to business combinations (ie preparer of financial statements, auditor, valuation specialist, user of financial statements and type of user, regulator, standard-setter, academic, accounting professional body etc).[a]

(b) your principal jurisdiction. If you are a user of financial statements, which geographical regions do you follow or invest in?

(c) whether your involvement with business combinations accounting has been mainly with IFRS 3 (2004) or IFRS 3 (2008).

(d) if you are a preparer of financial statements:

  (i) whether your jurisdiction or company is a recent adopter of IFRS and, if so, the year of adoption; and

  (ii) with how many business combinations accounted for under IFRS has your organisation been involved since 2004 and what were the industries of the acquirees in those combinations.

(e) if you are a user of financial statements, please briefly describe the main business combinations accounted for under IFRS that you have analysed since 2004 (for example, geographical regions in which those transactions took place, what were the industries of the acquirees in those business combinations etc).

(a) Type of user includes: buy-side analyst, sell-side analyst, credit rating analyst, creditor/lender, other (please specify).

2. Definition of a business

IFRS 3 (2008) amended the definitions of a business and a business combination and included additional guidance for identifying when a group of assets constitutes a business.[9] The assessment to determine whether a transaction involves a business is critical to determining whether a transaction is within the scope of the Standard or whether it is an acquisition of an asset or group of assets.

The accounting for business combinations differs from the accounting for an asset acquisition in the following key areas:

9 IFRS 3 (2004) defined 'business' as "an integrated set of activities and assets conducted and managed for the purpose of providing: (a) a return to investors; or (b) lower costs or other economic benefits directly and proportionately to policyholders or participants" and a 'business combination' as "the bringing together of separate entities or businesses into one reporting entity". IFRS 3 (2008) amended the definition of 'business' as follows: "An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants". It also amended the definition of a 'business combination' as follows: "A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also business combinations as that term is used in this IFRS".

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- the accounting for a premium paid in addition to the identifiable net assets. Such a premium is recognised as a separate asset (goodwill) in a business combination and is allocated to the identifiable assets based on their relative fair values in an asset acquisition.
- the accounting for deferred taxes. Deferred tax assets and deferred tax liabilities arising from the initial recognition of assets and liabilities, are recognised on the acquisition date in the case of business combinations, but, in the case of asset acquisitions they are not.
- the accounting for acquisition-related costs. They are capitalised as part of the cost of the asset(s) acquired in the case of asset acquisitions but recognised as an expense in the case of business combinations, with the exception of costs to issue debt or equity securities.

Question 2
(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?

3. Fair value

Fair value measurement has long been a feature of business combination accounting to measure the cost of the assets acquired and of the liabilities assumed in a business combination transaction. IAS 22 *Business Combinations*, issued in 1983, required each asset acquired and liability assumed in a business combination to be measured at fair value.

The IASB is interested in finding out whether the following factors, or any others, have had an impact on the extent of the use, implementation challenges, audit or enforcement of fair value measurements in business combinations:

- the amendments to the criteria for recognition of intangible assets in IAS 38 *Intangible Assets* as a consequence of IFRS 3 (2004) and IFRS 3 (2008) (see Question 4) were intended to result in more intangible assets being recognised in business combinations (instead of being subsumed in goodwill); and
- the global financial crisis that started in 2007 may have increased the challenges in measuring specific assets and liabilities at fair value.

Fair value is also used for measuring the recoverable amounts of goodwill and other assets or groups of assets in the impairment calculations.

Question 3	
(a)	To what extent is the information derived from the fair value measurements relevant and the information disclosed about fair value measurements sufficient?[a] 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?
(a)	According to the *Conceptual Framework* information is relevant if it has predictive value, confirmatory value or both.

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

IFRS 3 (2004) emphasised the previous requirement in IAS 22 and the previous version of IAS 38 for recognising an intangible asset acquired in a business combination separately from goodwill, because the IASB had observed that, despite those requirements, intangible assets were often included in the amount recognised as goodwill. The IASB believed that the usefulness of financial statements would be enhanced if intangible assets acquired in a business combination were distinguished from goodwill. This is because they either clearly have a finite useful life and should be amortised or they have an indefinite useful life and are subject to impairment testing. Consequently, IFRS 3 (2004) and IFRS 3 (2008) amended the criteria in IAS 38 for recognition of intangible assets arising from business combinations. The expected effect of those changes is an increase in the intangible assets recognised as a result of business combinations. We expect that those changes in the requirements have also helped users of financial statements in their assessment of stewardship or accountability of management.

In addition, IFRS 3 (2004) introduced changes in the accounting for negative goodwill by requiring its immediate recognition in profit or loss. The IASB concluded that the most representationally faithful treatment of negative goodwill arising from a bargain purchase is immediate recognition in profit or loss. IFRS 3 (2004) also required entities to disclose the nature of any excess recognised in profit or loss;[10] IFRS 3 (2008) replaced this disclosure by requiring a description of the reasons why the transaction resulted in a gain.

10 IFRS 3 (2004) referred to negative goodwill as the excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination.

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Question 4	
(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?

5. Non-amortisation of goodwill and indefinite-life intangible assets

One of the main changes to business combination accounting introduced by IFRS 3 (2004) was to preclude amortisation of goodwill and instead to require goodwill to be tested annually for impairment. The main reason for this change is that we concluded that assessing goodwill annually for impairment provides better information than an allocation of the cost via an amortisation charge, which depends on factors that are generally not possible to predict, such as the useful life of the acquired goodwill and the pattern in which it diminishes. We expect that the non-amortisation of goodwill has assisted users of financial statements in their assessment of management's accountability for the capital invested in the business combination.

In addition, IAS 38 was amended to require an intangible asset to be regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. Intangible assets with an indefinite useful life are not amortised but are instead tested for impairment annually.

The requirements for performing the annual impairment test of goodwill and of intangible assets with indefinite useful lives are set out in IAS 36 *Impairment of Assets*. The allocation of goodwill to cash-generating units (or groups of units) was also clarified in IAS 36. This included:

- specifying the treatment of goodwill that had been previously allocated to an operation within a cash-generating unit (or group of units) when an entity disposes of that operation; and
- setting out the reallocation of goodwill when an entity reorganises its reporting structure in a manner that changes the composition of cash-generating units (or groups of units) to which goodwill had been allocated.

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Question 5	
(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?

6. Non-controlling interests

As part of the 2003 revision of IAS 27 *Consolidated and Separate Financial Statements*, minority (non-controlling) interests were required to be presented in the consolidated statement of financial position within equity, separately from the equity of the shareholders of the parent. At that time, the IASB concluded that a minority (non-controlling) interest is not a liability of a group because it does not meet the definition of liability in the *Conceptual Framework*. IFRS 3 (2008) changed the term 'minority interest' to 'non-controlling interest' (NCI) and redefined it.[11]

In addition, IFRS 3 (2008) introduced:

- for each business combination, a choice of measurement basis for NCIs that are present ownership interests to be measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's net identifiable assets.
- amendments to IAS 27 (2003) to require that after control of an entity is obtained, changes in a parent's ownership interest that do not result in a loss of control are accounted for as equity transactions. This means that no gain or loss from these changes should be recognised in profit or loss. It also means that no change in the carrying amounts of the subsidiary's assets (including goodwill) or liabilities should be recognised as a result of such transactions.
- amendments to IAS 27 (2003) to require an entity to attribute total comprehensive income applicable to NCIs to those interests, even if this results in the NCIs having a deficit balance.

11 IAS 27 (2003) defined 'minority interest' as "that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent". IFRS 3 (2008) modified the term to 'non-controlling interest' and changed the definition to "the equity in a subsidiary not attributable, directly or indirectly, to a parent".

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Question 6	
(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.

7. Step acquisitions and loss of control

IFRS 3 provides guidance on how to account for step acquisitions. These are business combinations that are achieved in stages: the acquirer first purchases a minority (non-controlling) stake in the target entity, and then in a separate and independent transaction, it acquires one or more additional stakes that, cumulatively, give it control of the target entity. The two main changes to the accounting for step acquisitions that were introduced by IFRS 3 (2008) are:

- assets and liabilities of the acquiree are measured at fair value at the acquisition date and goodwill is measured as the difference at the acquisition date between the value of any investment in the acquiree held before the acquisition, the consideration transferred, the amount of any non-controlling interests and the acquisition-date amount of the net assets acquired.[12]

  Prior to IFRS 3 (2008) the assets and liabilities of the acquiree in a step acquisition were measured at fair value at each step in a step acquisition for the purposes of calculating a portion of goodwill. This often resulted in assets being measured at a composite of the different fair values at the different dates on which the acquirer had purchased each tranche, with goodwill being recognised at each step in a step acquisition.

- the acquirer remeasures its previously held equity interest at its acquisition-date fair value and recognises the related gain or loss in profit or loss.

The IASB had decided to require this accounting because:

- it thought that the acquisition-date fair values used for the assets and liabilities of the acquiree would result in more useful information. The recognition of gains or losses in profit or loss at the acquisition date reflects the significant change in the relationship between the acquirer and the acquiree. In other words, the IASB thought that obtaining control was a significant change in the nature of and economic circumstances surrounding that investment (ie a significant economic event).

12 IFRS 3 (2008) defines 'acquisition date' as "the date on which the acquirer obtains control of the acquiree".

- it concluded that the revised treatment of business combinations achieved in stages would improve the understandability and relevance of the information provided and would also reduce the cost of accounting for such transactions.

In addition, IFRS 3 (2008) also amended IAS 27 (2003) to require that any investment that a parent retained in a former subsidiary after control is lost is measured at fair value at the date that control is lost and also to require that any resulting gain or loss should be recognised in profit or loss. The IASB believed that, aligned with the requirement of remeasuring any previously held interest when an acquirer gained control of an acquiree, remeasuring the retained investment at fair value reflected the IASB's view that the loss of control of a subsidiary is a significant economic event.

Question 7

(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.

8. Disclosures

IFRS 3 requires information to be disclosed that enables users of financial statements to evaluate the nature and financial effect of a business combination that occurs during the current reporting period or after the end of the reporting period but before the financial statements are authorised for issue. In particular, IFRS 3 requires, among other things, information about:

- the assets and liabilities of the acquiree;
- the consideration transferred, including equity interests of the acquirer and contingent consideration;
- transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the business combination; and
- the contribution of the acquiree to the performance of the group.

In addition, the Business Combinations project also amended the disclosure requirements to other Standards such as IAS 27 (2008), IAS 36 and IAS 38 to reflect the main accounting changes arising from that project.

Question 8

(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?

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9. Other matters

The accounting for business combinations encompasses a wide range of areas. The preceding questions focus on those areas that we understand may pose the most significant challenges. This question aims to ensure that respondents have an opportunity to provide information on any additional matters that they think are relevant and that have not been addressed by any individual question in this RfI.

Question 9

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.

10. Effects

When we issued the revised IFRS 3 in 2008, we thought that the Standard would benefit both preparers and users of financial statements by achieving convergence to common high quality, understandable and enforceable accounting standards for business combinations in both IFRS and US GAAP. We thought that the unification of business combination accounting across the world's major capital markets would improve the comparability of financial information and simplify and reduce the costs of accounting for entities that issue financial statements in accordance with both IFRS and US GAAP.

We also thought that constituents would benefit because:

- the guidance in IFRS 3 (2008) is not unduly complex; and
- IFRS 3 (2008) addressed deficiencies in IFRS 3 (2004) and IAS 27 (2003) without changing the basic accounting.

In answering this question please focus on whether you:

- incurred significant unexpected costs, either as a one-time expense when implementing, using, auditing or enforcing the requirements of IFRS 3 or any of the related amendments, or as a recurring cost in each period. If you did incur unexpected costs, please explain what these were.
- benefited from the changes brought in by IFRS 3 or any of the related amendments because of improvements in the relevance of the information provided (ie information with more predictive and confirmatory value), because the information provided represented business combinations more faithfully and/or because additional guidance had been included.

Question 10

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)?

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Next steps

The IASB invites submissions to this RfI until **30 May 2014**. IASB members and staff will undertake a range of outreach activities internationally to assist with gathering this feedback. We expect to consider submissions received and feedback from outreach activities in a public meeting of the IASB in Q3 2014.

Submissions in writing

You can send a submission, preferably via the Internet, on http://go.ifrs.org/PIR-of-IFRS-3. Alternatively you can write to our postal address or send us an email to commentletters@ifrs.org. All submissions are public documents and will be published on our website.

Participate in an event

We intend to hold discussion forums with preparers, regulators, audit firms and users of financial statements. Many of these will be public meetings that will be arranged by us or through local standard-setters or regulators. The project page will inform you about these meetings and any other planned meetings about the PiR of IFRS 3: http://go.ifrs.org/PIR-of-IFRS-3.

For users of financial statements

We are particularly interested in understanding the effect of IFRS 3 on users of financial statements. If you want to get in touch, please contact Barbara Davidson bdavidson@ifrs.org.

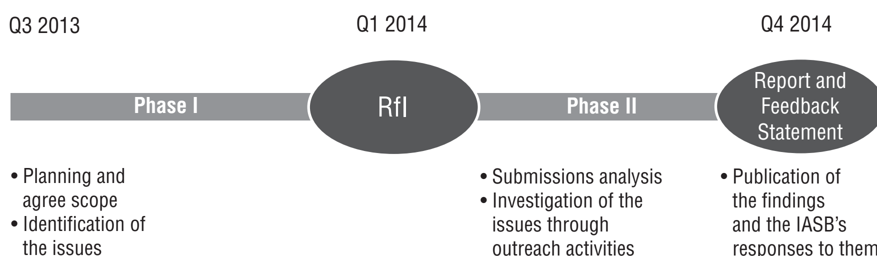
Stay informed

Our post-implementation alerts will keep you up to date about our PiR process.

To register, go to:

http://eifrs.ifrs.org/IB/Register

Time line of the PiR



APPENDIX
Main changes arising from the Business Combinations project

Areas	IAS 22	IFRS 3 (2004)	IFRS 3 (2008)
Method of accounting for Business Combinations (BCs)	Permitted pooling of interests or the purchase method.	All BCs accounted for by applying the acquisition method.	
Scope	The scope of IAS 22 did not exclude BCs of mutual entities and BCs achieved by contract alone.	BCs of mutual entities and BCs achieved by contract alone were excluded from the scope.	BCs of mutual entities and BCs achieved by contract alone are within the scope.
Cost of a BC	Cash or cash equivalents paid, the fair value (FV) of other purchase consideration given by the acquirer, plus any costs directly attributable to the acquisition.	The FV of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, plus any costs directly attributable to the BC.	The FV of the assets transferred, the liabilities incurred by the acquirer to former owners of the acquiree and equity interests issued by the acquirer. Acquisition-related costs must be recognised as expenses.

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<table>
<tr><th>Areas</th><th>IAS 22</th><th>IFRS 3 (2004)</th><th>IFRS 3 (2008)</th></tr>
<tr><td>Initial measurement of identifiable assets acquired and liabilities assumed in a BC</td><td>Permitted an option:
● Benchmark treatment: assets acquired and liabilities assumed initially measured at FV (acquirer’s ownership interest) and pre-acquisition carrying amounts (minority interest); or
● Allowed alternative treatment: assets acquired and liabilities assumed initially measured at FV.</td><td colspan="2">The acquirer must measure the identifiable assets acquired and liabilities assumed at their acquisition-date FVs.</td></tr>
<tr><td>Recognition of liabilities for terminating or reducing the activities of an acquiree</td><td>Entities were required to recognise a provision for terminating/reducing activities of the acquiree that was not a liability of the acquiree at the acquisition date.</td><td colspan="2">Recognise liabilities for terminating/reducing activities when the acquiree has a liability in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.</td></tr>
<tr><td>Contingent liabilities</td><td>The costs of contingent liabilities were subsumed within the amount recognised as goodwill or negative goodwill.</td><td>Required an acquirer to recognise separately the acquiree’s contingent liabilities, provided their FVs can be measured reliably.</td><td>Retains the guidance in IFRS 3 (2004) but it clarifies that contingent liabilities should not be recognised if they are not liabilities of the acquiree at the acquisition date.</td></tr>
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<tr><th>Areas</th><th>IAS 22</th><th>IFRS 3 (2004)</th><th>IFRS 3 (2008)</th></tr>
<tr><td>Contingent consideration</td><td colspan="2">Contingent consideration was recognised only if it was probable and could be measured reliably. If it was probable and could be measured reliably after the acquisition date, the additional consideration was treated as an adjustment to the cost of the BC and thus affected the amount of goodwill recognised.
There were no specific disclosure requirements in relation to either the initial agreement or subsequent payments.</td><td>A contingent consideration liability must be recognised as part of the BC at FV.
After the acquisition date, changes in the FV of the liability recognised are accounted for in accordance with other applicable Standards (normally changes in the FV will be recognised in profit or loss).
Disclose a description of the arrangement, the basis for determining the amount of the payment and an estimate of the range of outcomes.</td></tr>
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<table>
<tr><th>Areas</th><th>IAS 22</th><th>IFRS 3 (2004)</th><th>IFRS 3 (2008)</th></tr>
<tr><td rowspan="2">Intangible assets acquired in a BC</td><td rowspan="2">(IAS 38 pre-Business Combinations amendments)
Intangible assets were recognised if, and only if:
• it was probable that the future economic benefits attributable to the asset would flow to the entity (probability recognition criterion); and
• its costs could be measured reliably.</td><td colspan="2">(Amendments to IAS 38)
Intangible assets acquired in BCs always fulfil the probability recognition criterion.</td></tr>
<tr><td>Intangible assets are recognised if their FV can be measured reliably. The FV of intangible assets acquired in BCs can normally be measured with sufficient reliability to be recognised separately from goodwill. If intangible assets have a finite useful life, there is a rebuttable presumption that their FV can be measured reliably.</td><td>The FV of an intangible asset acquired in a BC can be measured with sufficient reliability to be recognised separately from goodwill.</td></tr>
<tr><td>Goodwill</td><td>Goodwill was systematically amortised over its useful life, which could not exceed 20 years.</td><td>Initially measured as: Goodwill = (A) Cost of BC – (B) Acquirer’s interest in the net FV of the identifiable assets, liabilities and contingent liabilities. Amortisation of goodwill is prohibited, goodwill is required to be tested for impairment annually.</td><td>Initially measured as: Goodwill = (A) Cost of BC + NCIs + Previously held equity interests in the acquiree at FV – (B) Net FV of acquiree’s identifiable assets and liabilities. Goodwill is required to be tested for impairment annually.</td></tr>
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<tr><th>Areas</th><th>IAS 22</th><th>IFRS 3 (2004)</th><th>IFRS 3 (2008)</th></tr>
<tr><td>Useful lives of intangible assets</td><td>(IAS 38 pre-Business Combinations amendments)
Prescribed a presumptive maximum life for intangible assets of 20 years.</td><td colspan="2">(Amendments to IAS 38)
Intangible assets useful lives are required to be regarded as indefinite when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period of time over which the intangible assets are expected to generate net cash inflows for the entity. An entity is required to disclose the carrying amount of an intangible asset with indefinite useful life and the reasons supporting the indefinite useful life assessment.
Intangible assets with indefinite useful lives are not amortised (see below).</td></tr>
<tr><td>Impairment of assets</td><td>(IAS 36 pre-Business Combinations amendments)
The recoverable amount of an asset was required to be measured whenever there was an indication that an asset may have been impaired. Goodwill was required to be tested for impairment as part of impairment testing the cash-generating unit(s) (CGU or CGUs) to which it related. A ‘bottom-up/top-down’ approach was used under which the goodwill was tested for impairment by allocating its carrying amount to each CGU or smallest group of CGUs to which a portion of that carrying amount could be allocated on a reasonable and consistent basis.</td><td colspan="2">(Amendments to IAS 36)
The recoverable amount of an intangible asset with an indefinite useful life is measured annually, irrespective of whether there is any indication that it may be impaired.
Goodwill is allocated to each of the acquirer’s CGUs, or groups of CGUs, that are expected to benefit from the synergies of the BC, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which goodwill is allocated should:
● represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
● not be larger than a segment based on either the entity’s primary or secondary reporting format in accordance with IAS 14 Segment Reporting, or not be larger than an operating segment determined in accordance with IFRS 8 Operating Segments.</td></tr>
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<table>
<tr><th>Areas</th><th>IAS 22</th><th>IFRS 3 (2004)</th><th>IFRS 3 (2008)</th></tr>
<tr><td rowspan="2">Impairment of assets—continued</td><td rowspan="2"></td><td colspan="2">(Amendments to IAS 36)
When an entity disposes of an operation within a CGU (or group of units) to which goodwill has been allocated, the goodwill associated with that operation should be:
● included in the carrying amount of the operation when determining the gain or loss on disposal; and
● measured on the basis of the relative values of the operation disposed of and the portion of the CGU (or groups of units) retained, unless some other method could better reflect the goodwill associated with the operation disposed of.
When an entity reorganises its reporting structure in a manner that changes the composition of CGUs (or groups of units) to which goodwill has been allocated, the goodwill should be reallocated to the units (or groups of units) affected. This reallocation should be performed using a relative value approach similar to that used when an entity disposes of an operation within a CGU (or group of units).</td></tr>
<tr><td></td><td>The requirements in Appendix C Impairment testing cash-generating units with goodwill and non-controlling interests were amended to reflect the two ways of measuring NCIs: at FV or as a proportion of the identifiable net assets of the acquiree.</td></tr>
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Areas	IAS 22	IFRS 3 (2004)	IFRS 3 (2008)
Impairment of assets—*continued*	***(IAS 36 pre-Business Combinations amendments)*** Impairment loss recognised for goodwill in a previous period was required to be reversed when the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.	***(Amendments to IAS 36)*** Reversals of impairment losses for goodwill are not recognised.	
Non-controlling interests (NCIs)	Allowed two options: ● *Benchmark approach:* minority interest measured at the pre-acquisition carrying amounts; or ● *Allowed alternative approach* (see IFRS 3 (2004)).	Initially measured at the minority's proportion of the net FV of the assets acquired and liabilities assumed (*Allowed alternative approach* in IAS 22).	For each BC, NCIs must be initially measured: ● at FV; or ● as a proportionate share of the acquiree's net identifiable assets.
Bargain purchases	In most cases, negative goodwill was deferred and amortised to profit or loss, sometimes immediate recognition in profit or loss was required.	If goodwill is negative then it is recognised immediately in profit or loss. Disclosure of the amount and the line item in the income statement in which the negative goodwill is recognised is required.	
		Provide a description of the nature of any negative goodwill recognised in profit or loss.	Provide a description of the reasons why the transaction resulted in a gain.

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Areas	Before IFRS 3 (2008)	IFRS 3 (2008)
Step acquisitions	The assets and liabilities of an acquiree in a step acquisition were measured at FV at each step in a step acquisition for the purposes of calculating a portion of goodwill. This often resulted in assets being measured at a composite of the different FVs at the different dates on which the acquirer had purchased each tranche, with goodwill being recognised at each step in a step acquisition.	***(Amendments to IAS 27)*** Assets and liabilities of the acquiree are measured at FV at the date that control is obtained and goodwill is measured as the difference at acquisition date between the value of any investment in the acquiree held before the acquisition, the consideration transferred, the amount of any NCIs and the acquisition-date amount of the net assets acquired. The acquirer remeasures its previously held equity interest at its acquisition-date FV and recognises the related gain or loss in profit or loss.
Accounting for changes in ownership interests in subsidiaries	IAS 27 (2003) did not deal with the accounting for transactions between equity holders.	***(Amendments to IAS 27)*** After control of an entity is obtained, changes in a parent's ownership interest that do not result in a loss of control are accounted for as equity transactions. This means that no gain or loss from these changes is recognised in profit or loss. It also means that no change in the carrying amounts of the subsidiary's assets (including goodwill) or liabilities is recognised as a result of such transactions.

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Areas	Before IFRS 3 (2008)	IFRS 3 (2008)
Loss of control	IAS 27 (2003) required that at the date control was lost the carrying amount of the retained investment was the initial measurement for its subsequent accounting as a financial asset.	***(Amendments to IAS 27)*** Any investment that a parent had in a former subsidiary after control is lost is measured at FV at the date that control is lost and any resulting gain or loss is recognised in profit or loss.
Attribution of losses	IAS 27 (2003) stated that when losses attributed to the minority (non-controlling) interests exceeded the minority's interests in the subsidiary's equity, the excess, and any further losses applicable to the minority, was allocated against the majority interest except to the extent that the minority had a binding obligation and was able to make an additional investment to cover the losses.	***(Amendments to IAS 27)*** An entity is required to attribute total comprehensive income applicable to NCIs to those interests, even if this results in the NCIs having a deficit balance.

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