Angus Thomson
Acting Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

19 September 2014

Dear Angus

Re: Exposure drafts 249 and 250 and Invitation to Comment 30

I am enclosing a copy of PricewaterhouseCooopers' response to the following International Accounting Standards Board's documents:

- ED/2014/1 *Disclosure Initiative (Proposed amendments to IAS 1)* (ED 249)
- ED/2014/2 *Investment Entities: Applying the Consolidation Exception,* and
- *Request for Information on Post-implementation review: IFRS 3 Business Combinations* (ITC 30).

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the requests for comment. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matters for comment on ED 249 and ED 250
We are not aware of any regulatory or other issues that could affect the implementation of the proposals for not-for-profit and public sector entities.

The proposals in ED 249 are consistent with our own efforts in streamlining financial reports which we consider to be more relevant and useful for users. We therefore consider they are in the best interests of the Australian economy.

Tier 2 supplement to ED 249
We agree with the AASB's proposal to exclude paragraph 85B from the tier 2 disclosures.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 5371 if you would like to discuss our comments further.

Yours sincerely,

Margot Le Bars
Partner, PricewaterhouseCoopers

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
30 May 2014

Dear Sirs,

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

We are responding to your Request for Information in conjunction with your post-implementation review of IFRS 3 *Business Combinations* ('request for information') on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of the member firms that commented on the request for information. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Our responses to the specific questions in the request for information are attached to this letter as Appendix A. We have answered all of the specific questions where we believe we have relevant information or experience.

We understand that the IASB might consider changes to the accounting for business combinations and non-controlling interests following the post-implementation review. The primary objective of the IASB must be to provide robust standards for the international capital markets. However, IFRS 3 and the economic entity aspects of IFRS 10 are largely converged with US GAAP. Within the context of the primary objective above, the IASB should seek to work together with the Financial Accounting Standards Board (FASB) to the extent that future changes are considered in order to mitigate the risk of divergence in this important area.

We note that the FASB has recently decided to reconsider the post-acquisition accounting for goodwill, and we would support a similar effort by the IASB.

If you have any questions in relation to this letter, please do not hesitate to contact John Hitchins (Global chief accountant) (020 7804 2497), or Olivier Schérer (+33 1 56 57 69 65).

PricewaterhouseCoopers

Yours faithfully

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Appendix A

Question 1 – Background and experience of respondents

Our role in relation to business combinations is primarily that of an auditor. We also provide services to clients for whom we are not the auditor that involve valuation of assets acquired and liabilities assumed in a business combination and also accounting advisory services related to the accounting for a business combination. The PricewaterhouseCoopers network of firms operates globally, so there is no principal jurisdiction. We have been involved with both IFRS 3 (2004) and IFRS 3 (2008).

Question 2 – Definition of a business

Different accounting treatments for business combinations and asset acquisitions might have a material impact on the financial statements, the most significant being (i) recognition of goodwill, deferred taxes and contingent consideration in a business combination, (ii) discrete fair value measurement of assets and liabilities in a business combination, (iii) recognition and measurement of contingent liabilities, and (iv) recognition of transaction costs. Thus, it is important to be able to accurately distinguish between these two types of transaction.

When making that distinction, the main challenges relate to the identification of *processes* acquired as part of the acquired (set of) assets and the significance of any 'missing' processes. Among the industries most acutely impacted by those challenges are real estate, pharmaceutical, extractive, shipping, and financial services. In those industries, making the distinction between an asset acquisition and a business combination can be difficult, especially where the acquisition involves an individual asset that comprises substantially all of the transaction value. Providing additional guidance, particularly to those types of transaction that *might* not constitute a business, would be useful.

Question 3 – Fair value

Fair value is generally the relevant measurement attribute for assets acquired and liabilities assumed in a business combination. There are limited circumstances where fair value might not be relevant, including the measurement of liabilities subsequently accounted for under IAS 37. In particular, the discount rate used to measure liabilities at fair value at the acquisition date might differ from the discount rate required by IAS 37 for subsequent accounting measurements.

Fair value measurements can be especially challenging to determine and to audit where significant unobservable inputs are used or where there are a number of potential outcomes. However, these challenges are not unique to a business combination.

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

Separate recognition of intangible assets is useful, particularly where those assets have limited useful lives and the useful lives of the various intangibles differ. However, fair value measurement might be challenging under certain circumstances, as we have explained above.

Our experience is that negative goodwill arises more frequently in practice than was indicated in the standard. We observe that negative goodwill arises in a number of different circumstances, such as where (i) companies are sold during periods of distress (for example, during the recent financial crisis), (ii) restructuring provisions are required and contemplated in the economics of a deal but cannot be recorded at acquisition under the standard, or (iii) share prices fluctuate significantly subsequent to fixing the exchange ratio. The IASB should consider whether users believe that the immediate recognition of such bargain purchase gains in the income statement is relevant and useful.

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

Some of the benefits perceived from an annual impairment test lie in the requirement for management to reassess annually its predictions of future cash flows and the signal it gives to the market when an impairment charge is booked. However, we note that the relevance to users of the impairment test (or impairment test methodology) is affected by allocating goodwill to a combination of acquired and existing businesses. This approach has some conceptual merits, because it takes into account the synergies expected from the combination of the businesses. However, business cycles are accelerating, and entities restructure, reorganise, discontinue activities or develop new businesses. We are concerned that the relevance of the impairment tests diminishes over time, as the link weakens between the cash flows used to determine the recoverable amount of the goodwill and the goodwill initially recognised.

We also note that the FASB has recently decided to reconsider the post-acquisition accounting for goodwill, and we would support a similar effort by the IASB.

Question 7 – Step acquisitions and loss of control

We observe that users and preparers appear to struggle to understand the recognition of gains from revaluation of a previously held equity interest in a step acquisition, and the retained investment where control is lost, and the absence of gains where an entity sells a portion of its business with no loss of control. As a result, alternative performance measures are often used in some jurisdictions.

Question 8 – Disclosures

Disclosure of valuation techniques and inputs used to fair value assets and liabilities acquired in a business combination (such as those required by IFRS 13 for items carried at fair value) would be useful additional information to properly understand the effects of an acquisition.

Question 9 – Other matters

The IASB should consider the potential difference between the contractual period for valuation of intangible assets (which includes probability of renewal) and the amortisation period (which does not include renewal, unless the criteria in IAS 38 are met). We note that this potential conflict within the literature has been resolved under US GAAP.