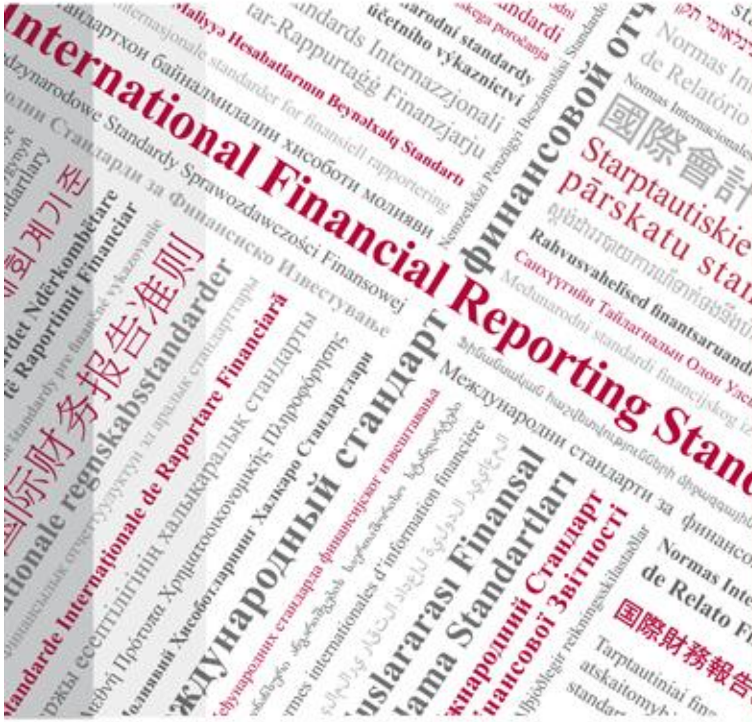
November 2013

International Financial Reporting Standards



Post-implementation Review of IFRS 3 *Business Combinations*

Agenda Paper 7A

Global Preparers Forum Meeting

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

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Agenda

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- Your feedback—Slides 10–11
- Next steps—Slides 12–13

International Financial Reporting Standards

Post-implementation Review (PiR) of IFRS 3 *Business Combinations*

Scope

PiR of IFRS 3 *Business Combinations*

- The PiR of IFRS 3 *Business Combinations* is the IASB's second review.
- The IASB discussed the PiR of IFRS 3 at its July 2013 meeting. At that meeting, the IASB tentatively agreed that the scope of the PiR of IFRS 3 will include:
  - the whole Business Combinations project (ie the first and second phases of the project), which resulted in the issuance of IFRS 3 (2004) and IFRS 3 (2008); and
  - any consequential amendments resulting from the Business Combinations project (ie amendments to IAS 12 *Income Taxes*, IAS 27 *Consolidated and Separate Financial Statements*, IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*)

What we have heard so far

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- The following tables summarise the main areas of concern raised so far:

Conceptual matters
• Non-amortisation of goodwill: impairment test or amortisation?
• Recognition of intangibles separately from goodwill. Different recognition criteria for intangibles: IFRS 3 vs. IAS 38 *Intangible Assets.*
• Different accounting treatments between IFRS 3 and other IFRSs: acquisition-related costs, contingent consideration.
• Step acquisitions: recognition of gains/losses when remeasuring previously held interests.
• Remeasurement of contingent consideration and recognition of gains/losses in profit or loss.
• Measurement inconsistencies between initial recognition and subsequent measurement for certain assets/liabilities; for example, decommissioning liabilities.

What we have heard so far—*continued*

Matters for which further guidance or clarification may be needed

- Definition of a business
- Measurement of certain assets and liabilities at fair value has proved to be challenging (eg intangibles, contingent consideration, previously held interests).
- Measurement of the settlement of pre-existing customer relationships.
- Distinguishing contingent consideration from remuneration.
- Measurement option for non-controlling interests (NCIs): should the option be per business combination or should it be an accounting policy choice for all business combinations of an entity?
- Accounting for impairment testing of goodwill when NCIs are recognised. In particular, clarification of the requirements relating to:
  (a) calculating the 'gross up' of the carrying amount of goodwill when partial goodwill is recognised because NCI is measured on a proportionate share basis;
  (b) allocation of impairment losses between the parent and NCI; and
  (c) reallocation of goodwill between NCI and controlling interests after a change in a parent's ownership interest in a subsidiary that does not result in a loss of control.

What we have heard so far—*continued*

Matters on which further guidance or clarification may be needed
• Mandatory purchases of NCIs in business combinations and put options written on NCIs.
• Accounting treatment of acquisition-related costs and step acquisitions in separate financial statements.

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What have we heard so far—*continued*

Matters raised by users
• Information needed to be able to estimate the enterprise value of the acquiree. What are the debts, pension liabilities, finance lease obligations assumed etc?
• Some users have stated that the measurement of assets and liabilities at fair value (eg tangible/intangible assets, inventory) impairs the ability to assess the underlying performance in the quarters subsequent to an acquisition. More information needed about inputs and assumptions used in the valuations (sometimes ‘significant step-ups’ are observed).
• Require disclosure of the carrying amounts of the assets acquired and liabilities assumed (former paragraph 67 of IFRS 3 (2004) removed in 2008).
• Information about the nature of the intangible assets acquired (intangibles with finite lives, indefinite lives, intangibles that are sustained through expenditure that goes to profit or loss).
• Different views on the usefulness of goodwill amortisation vs impairment test.
• Comparative information should be required for proforma disclosures.
• It is difficult to track subsequent performance. Information about subsequent performance would be useful for assessing whether an acquisition was successful.

Your feedback

Your feedback

- We would like to ask the GPF members for their feedback and input:

  - From your experience, have the most relevant matters relating to the implementation of IFRS 3 been identified in the previous slides? What would you modify, add or remove?

Next steps

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Next steps

- We will bring the result of the consultations and activities undertaken during Phase I to the November 2013 IASB meeting.

- At that meeting we will propose to the IASB the main areas that the Request for Information (RfI) should focus on. Phase I of the PiR will conclude with the publication of the RfI, which will set the scope for Phase II of the PiR.

- We aim to publish the RfI early next year with a comment period of 120 days.

Thank you


individual comments
questions
expressions of
individual views
comments
feedback
questions
feedback
questions or comments
expressions of individual views
comments
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expressions and viewpoints