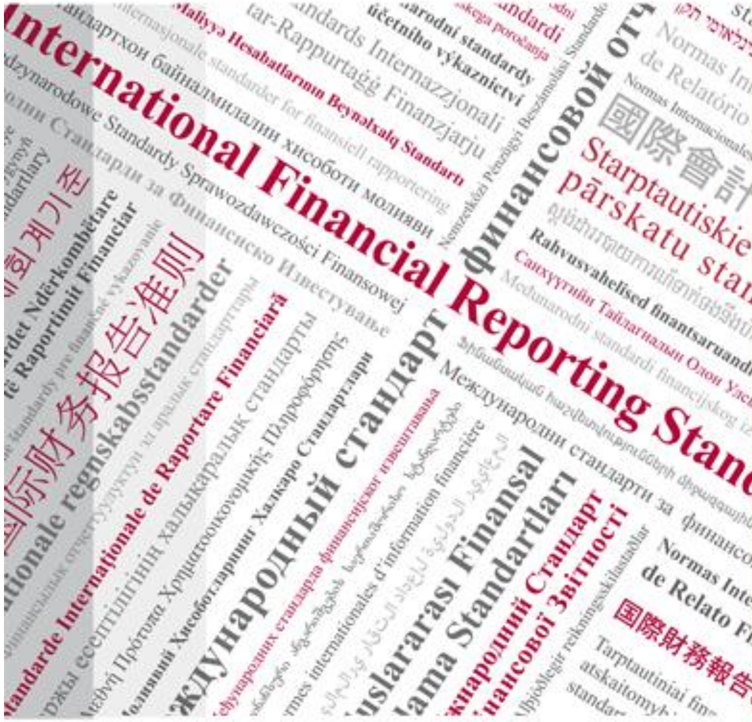
International Financial Reporting Standards



GPF meeting, March 2014
Agenda paper 6

Post-implementation Review of IFRS 3 *Business Combinations*

GPF Meeting

11 March 2014

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

IFRS™

Objective of this presentation

- Get your input on the questions included in the Request for Information (RfI) that are relevant to preparers.
- Provide an overview of the RfI*.
- Update on the current status of the Post-implementation Review (PiR) for IFRS 3 *Business Combinations.*

* the full document is in AP6A

Agenda

- Background information
- Status of the PiR for IFRS 3
- Request for Information
  - Topics and questions relevant to preparers
  - Related feedback to date on such topics

Background information

IFRS™

Background information

The Business Combinations project:

- Phase 1 (IASB only):
  - 2001: Review of IAS 22 *Business Combinations* starts
  - 2004: IFRS 3 *Business Combinations* and revised versions of IAS 36 and IAS 38 were issued.
- Phase 2 (jointly with FASB):
  - 2007: FASB issued the revised version of SFAS 141 and amended SFAS 160.
  - 2008: Revised version of IFRS 3 and amended version of IAS 27 were issued.

IFRS™

International Financial Reporting Standards

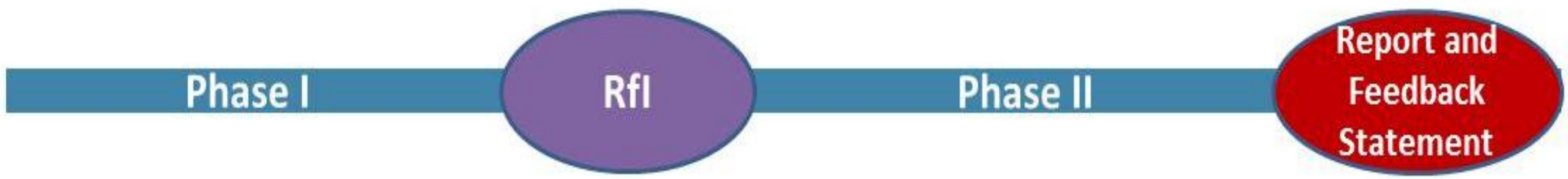
Current status of the Post-implementation Review for IFRS 3

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

IFRS™

Current status of the PiR for IFRS 3

- Request for Information was published on 30 January 2014. This public consultation initiates Phase II of the PiR.



- Planning and agree scope
- Identification of the issues

- Submissions analysis
- Investigation of the issues through outreach activities

- Publication of the findings and the IASB's responses to them

International Financial Reporting Standards

Request for Information (RfI)

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

IFRS™

Definition of a business

Question: What are the main implementation challenges you face when assessing a transaction to determine whether it is a business? What are the main considerations that you take into account in your assessment?

IFRS 3 defines a business as: “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.”

We have heard so far from preparers that:

- The definition of a business is broad and in some circumstances is hard to distinguish between a business and a group of assets that is not a business
- There is limited guidance on what is not a business.
- Most of the uncertainty regarding the definition of a business arises from consideration of the processes that need to be in place in a business.
- The assessment is particularly challenging for specific industries (eg real estate, shipping, mining, oil and gas)

Fair value—Measurement

Questions:
What have been the most significant valuation challenges in measuring fair value within the context of business combination accounting?

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

We have heard so far from preparers that:

- Valuation practices/methodologies vary across jurisdictions leading to concerns about possible lack of comparability.
- Undertaking valuations is a costly process, particularly in small and medium sized companies.
- Contingent liabilities and contingent consideration can be difficult to measure
- Determining whether pre-existing contractual relationships are favourable or unfavourable can be complex and time-consuming
- Payments for continuing employment of former shareholders: consideration or compensation?

Separate recognition of intangible assets from goodwill

Questions:
What are the main implementation challenges in the separate recognition of intangible assets from goodwill?
What do you think are the main causes of those challenges?

We have heard so far from preparers that:

- Conceptually the split between goodwill and intangible assets is appropriate, but in practice requires much use of judgement.
- Some question whether the benefits of the separate recognition of intangible assets outweighs the costs.
- Management value the business as a whole, rather than individually value the assets acquired and the liabilities assumed.
- The subsequent amortisation of intangible assets relies on estimates of useful lives, which are also subjective.

Non-amortisation of goodwill and indefinite-life intangible assets

Question:

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

We have heard so far that:

The assumptions used in the impairment test are subjective.

Purchased goodwill may be supported by internally generated goodwill (ie it is difficult to separate the cash flows between these two).

Impairment test may be costly and complex.

Impairment losses are not recognised early enough.

IFRS™

Non-controlling interests (NCIs)

Question:
What are the main challenges in the accounting for NCIs?
Please specify the measurement option under which those challenges arise.

Currently NCIs can be measured at fair value or proportionately to the fair value of the acquiree's net identifiable asset. This measurement option has an effect on the amount of goodwill recognised.

We have heard so far that:

- In bargain purchases, choosing the fair value option to measure NCI results in a larger gain.
- When ownership interest decreases without loss of control (eg from 80% to 60%), it is not clear how NCI should be measured (ie % of net asset + goodwill, % of net asset without goodwill, or fair value?).
- The fair value option is not used much.

Disclosures

Questions:

What are the main challenges to preparing the disclosures required by IFRS 3?

We have heard so far from users that the disclosures required by IFRS 3 should be improved. For example:

- Disclosures relating to the assets acquired and the liabilities assumed are not generally provided with enough granularity (eg financial liabilities are not broken down into pension liabilities, debt, financial lease obligations, etc).
- Insufficient information disclosed about inputs and assumptions used to measure the fair value amounts.
- Insufficient information disclosed to differentiate organic growth from acquisition driven growth.

Where to go for more information

- Project page on the IFRS website:
  - http://www.ifrs.org/Current-Projects/IASB-Projects/PIR/PIR-IFRS-3/Pages/PIR-IFRS-3.aspx

- Contacts:
  - Michael Stewart: Director of Implementation Activities (mstewart@ifrs.org)
  - Leonardo Piombino: Visiting Fellow (lpiombino@ifrs.org)

IFRS™

Thank you


individual comments
questions
comment
expressions of individual views
feedback
questions
feedback
comments
questions or comments
expressions of individual views
comments
expressions of individual views
expressions
feedback
dividual comments
questions or
individual
comments
expressions of
questions
expressions of individual views
questions
ssions and viewpoints
questions or individual comments