

IASB POST-IMPLEMENTATION REVIEW OF IFRS 3 BUSINESS COMBINATIONS INTERNATIONAL FINANCIAL REPORTING BULLETIN 2014/02



Summary

The International Accounting Standards Board (IASB) has issued a Request for Information (RFI) in respect of its Post-Implementation Review of IFRS 3 *Business Combinations*. The RFI represents the second, public consultation, phase of the PIR.

The RFI focuses on experience with, and the effects of implementing, IFRS 3, and seeks feedback on whether:

- IFRS 3 provides information that is useful to users of financial statements
- There are areas of IFRS 3 that represent implementation challenges
- Unexpected costs have arisen when preparing, auditing or enforcing the requirements of IFRS 3.

Specific questions addressed in the RFI include those in relation to:

- Definition of a business
- Fair value
- Separate recognition of intangible assets from goodwill and the accounting for negative goodwill
- Non-amortisation of goodwill and indefinite life intangible assets
- Non-controlling interests
- Step acquisitions and loss of control
- Disclosures
- Other matters
- Effects.

The RFI has been published with a 4 month consultation period, with comments due by 30 May 2014.

STATUS

Request for Information

EFFECTIVE DATE

N/A

ACCOUNTING IMPACT

May result in changes being made to IFRS 3 *Business Combinations*.

Background on the Business Combination project

The predecessor of IFRS 3 *Business Combinations*, IAS 22 *Accounting for Business Combinations*, was originally released in November 1983.

When the International Accounting Standards Board (IASB) was formed in 2001, the Business Combination project was initiated as there was significant divergence within and across various jurisdictions in the application of IAS 22 (the most recent revision of which was issued in 1998).

The IASB decided to approach the project to replace IAS 22 in two phases. Both phases started at the same time and ran parallel to each other, until the completion of the first phase:

- *Phase 1*: Short-term project focussing on specific areas of significant (i.e. pooling of interest method, goodwill impairment and amortisation)
- *Phase 2*: Longer-term project looking at broader issues in business combination accounting.

An exposure draft was released in December 2002 which also included consequential amendments to IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*, and attracted 136 comment letters from constituents.

IFRS 3 *Business Combinations* was then released in March 2004, signalling the end of Phase 1 of the Business Combinations project.

Significant changes to the then current practice under IAS 22 included:

Area of change from IAS 22	Details
Overall treatment	<ul style="list-style-type: none"> – Acquisition method is the only allowed method – Pooling of interest method no longer permitted.
Terminating or reducing activities of the acquiree and contingent liabilities	<ul style="list-style-type: none"> – Separate recognition only when liabilities of the acquiree at the acquisition date in accordance with IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> – No longer included in the cost of acquisition.
Intangible assets	<ul style="list-style-type: none"> – Probability criteria always assumed to have been met in a business combination.
Amortisation of indefinite-lived intangible assets and goodwill	<ul style="list-style-type: none"> – Discontinued. Instead these items must be tested annually for impairment.
'Negative goodwill'	<ul style="list-style-type: none"> – Recognised in profit or loss at acquisition date.

Figure 1 – Significant changes made to business combination accounting upon the release of IFRS 3 (2004)

Phase 2 of the Business Combinations project continued on after the release of IFRS 3 (2004), culminating in the release of an exposure draft issued in 2005 proposing revisions to IFRS 3 (2004). This attracted 280 comment letters from constituents.

IFRS 3 (Revised) was then released in January 2008.

Significant changes from IFRS 3 (2004) included:

Area of change from IFRS 3 (2004)	Details
Scope	<ul style="list-style-type: none"> – Business combinations involving only mutual entities are in the scope of IFRS 3 – Business combinations achieved by contract alone are added to the scope of IFRS 3.
Transaction costs	<ul style="list-style-type: none"> – Recognised in profit or loss as expenses when incurred (not capitalised as part of the cost of acquisition).
Contingent consideration	<ul style="list-style-type: none"> – Recognised at its acquisition date fair value – Subsequent changes in fair value are recognised in profit or loss.
Non-controlling interest (NCI)	<ul style="list-style-type: none"> – Choice of measurement between: <ul style="list-style-type: none"> – Fair value – Proportionate share of acquisition date fair value of net identifiable assets.
Goodwill in a step acquisition	<ul style="list-style-type: none"> – Simplification of measurement.
Acquisition and disposal of NCIs	<ul style="list-style-type: none"> – Accounted for as equity transactions.
Attributing total comprehensive to NCIs	<ul style="list-style-type: none"> – Requirement to attribute (which may result in a negative NCI balance).
Additional guidance	<ul style="list-style-type: none"> – Additional guidance provided for accounting for: <ul style="list-style-type: none"> – Reacquired rights – Indemnification assets – Leases and insurance contracts – Contingent liabilities.

Figure 2 – Significant changes made to business combination accounting upon the release of IFRS 3 (2008)

The current RFI regarding the Post-Implementation Review of IFRS 3 has been issued in accordance with the requirements of the IFRS Foundation Due Process Handbook, which requires the IASB to conduct such a review after the release of each new standard or major amendment. The purpose of the Post-Implementation Review is to assess the effect of the new requirements on investors, preparers, and auditors. The review considers issues that were important or contentious during the development of IFRS 3, together with those which have come to the attention of the IASB since its publication.

In addition to the RFI, the IASB plans to undertake a range of outreach activities around the globe.

Areas on which the IASB is seeking feedback

The RFI includes 10 questions, which themselves include various other questions.

Question 1 simply serves as an information gathering tool for the IASB so that it is able to disaggregate responses from constituents based on their role (i.e. user, preparer, regulator, auditor etc.), and on jurisdiction.


The other 9 areas on which the IASB is seeking feedback, and a summary of the questions asked are detailed below.

Area of questioning	Summary of details
Definition of a business	<ul style="list-style-type: none"> – Are there benefits of having separate accounting treatments for business combinations and asset acquisitions? – What are the main practical implementation, auditing or enforcement challenges related to the definition of a business?
Fair value	<ul style="list-style-type: none"> – Are fair value measurements relevant? – What are the main valuation, auditing or enforcement challenges related to fair value measurement? – Are fair value measurements more challenging for particular elements?
Separate recognition of intangible assets from goodwill and the accounting for negative goodwill	<ul style="list-style-type: none"> – Is the separate recognition of intangible assets from goodwill useful, and are changes needed? – What are the main implementation, auditing or enforcement challenges related to the separate recognition of intangible assets from goodwill? – Is the recognition and additional disclosure related to negative goodwill useful?
Non-amortisation of goodwill and indefinite life intangible assets	<ul style="list-style-type: none"> – Is the information obtained during the mandatory annual impairments testing of goodwill and indefinite life intangible assets useful? – Are improvements needed to the information provided? – What are the main implementation, auditing or enforcement challenges related to the mandatory annual impairment testing of goodwill and indefinite life intangible assets?
Non-controlling interests (NCI)	<ul style="list-style-type: none"> – Is the information regarding the presentation and measurement of NCI useful? – Are improvements needed to the information provided? – What are the main accounting, auditing or enforcement challenges related to the accounting of NCI?
Step acquisitions and loss of control	<ul style="list-style-type: none"> – Is the information regarding step acquisitions in IFRS 3 useful? – Is the information regarding the retained interest in a formerly controlled entity (i.e. a subsidiary) useful?
Disclosures	<ul style="list-style-type: none"> – What, if any, additional information is required to understand the effect of an acquisition on a group? – Are there any current disclosure requirements that are not useful? – What are the main preparation, auditing or enforcement challenges related to IFRS 3 disclosures?
Other matters	<ul style="list-style-type: none"> – Are there any other matters the IASB should be aware of?
Effects of the revision to IFRS 3 in 2008	<ul style="list-style-type: none"> – Which areas of the 2008 revision to IFRS 3: <ul style="list-style-type: none"> – Have resulted in benefits? – Have resulted in unexpected costs? – Have had an effect on how business combinations are carried out in practice?

Figure 3 – Summary of questions included in the IASB's RFI

Comment period

The IASB's *Request for Information* relating to the *Post-Implementation Review of IFRS 3: Business Combinations* has been published with a 4 month consultation period, with comments due by 30 May 2014.



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