

Call for evidence: Post- implementation Review of IFRS 3 *Business Combinations* – Preparer Outreach

Purpose of this questionnaire

On 30 January 2014, the IASB published a Request for Information on the Post-implementation review of IFRS 3 *Business Combinations* with a comment period of 120 days.

This questionnaire is based on the IASB's Request for Information, but includes some additional questions on issues that we believe call for more detailed insight. EFRAG, in partnership with European National Standard Setters, is requesting that European companies share their practical experiences with IFRS 3 (and any consequential amendments to other Standards).

EFRAG staff will aggregate the results of all the questionnaires received on an anonymous basis and only a list of companies who participated in the study will be provided as an appendix. If you explicitly request it, the name of your company will not be included.

EFRAG and your National Standard Setter, if applicable, will have access to the information that you provide in response to this questionnaire. Your response will be also shared with other National Standard Setters participating in the exercise, the IASB and the European Commission on an anonymous basis (i.e. participants' identity will remain confidential).

Background

- 1 In July 2013, the International Accounting Standards Board ('IASB') commenced work on the Post-implementation Review of IFRS 3 *Business Combinations*.
- 2 The scope of the review is to cover the whole Business Combinations project (i.e. the first and the second phases of the project) which resulted in the issuance of IFRS 3 (2004) and IFRS 3 (2008); and any consequential amendments to other Standards resulting from the Business Combinations project.
- 3 On 30 January 2014, the IASB began the public consultation stage of its review of IFRS 3 by publishing a Request for Information on experience with, and the effect of, implementing the Standard (and any consequential amendments to other Standards). The Request for Information seeks feedback on whether the Standard (and any consequential amendments to other Standards) provides information that is useful to users of financial statements, whether there are areas of the Standard that represented implementation challenges and whether unexpected costs have arisen when preparing, auditing or enforcing the requirements of the Standard.

- 4 The Request for Information is open for public consultation until 30 May 2014 and can be accessed via the [‘Comment on a Proposal’](#) section of www.ifrs.org.
- 5 Further information about the project, including information concerning outreach activities, is available on the EFRAG project page, [click here](#).

Objective of the outreach

- 6 This outreach focuses on preparers of financial statements and is carried out by EFRAG with the National Standard Setters ANC, ASCG, FRC and OIC in coordination with the IASB staff. The feedback received will assist EFRAG, and its partners, to prepare a response to the IASB’s Request for Information on the Post-implementation of IFRS 3. We wish to gather feedback from preparer-companies with recent experience (since 2009) of accounting for business combinations.
- 7 The objective of the outreach is to obtain evidence about whether IFRS 3 (and related Standards) was implemented on a consistent basis and to understand any unintended consequences arising from its introduction and implementation in practice. Specifically, we would like to understand whether there are areas of IFRS 3 (any consequential amendments to other Standards) that represent implementation challenges and whether unexpected costs have arisen when meeting the requirements of the Standard (any consequential amendments to other Standards).
- 8 The feedback received will assist EFRAG, and its partners, to prepare a response to the IASB’s Request for Information. In setting up this outreach exercise, EFRAG and National Standard Setters are coordinating with the IASB staff responsible for the project in order to avoid creating overlap in their respective outreach activities.

What you are invited to do

- 9 Participants are expected to:
 - a) Identify one (or more) business combinations undertaken since IFRS 3 (2008) became effective.
 - b) Submit the questionnaire to your designated point of contact (paragraph 13).
- 10 A member of EFRAG staff and/or a National Standard Setter would contact you to arrange a suitable date to discuss your responses. The objective of this is to give you an opportunity to clarify your responses, and to provide EFRAG staff and/or staff of a National Standard Setter a chance to gain a better insight into the issues reported.
- 11 Participants are asked to:
 - Provide some general information and an overview of recent experience of accounting for business combinations.
 - Document your comments and answers in English in the sections specified.
- 12 If you would like any further information about how the questionnaire, please contact your designated point of contact. Participants are encouraged to contact their own National Standard Setters (see paragraph 13 below) where possible; otherwise participants should contact EFRAG staff.

- 13 Participants are asked to submit the questionnaire by **15 April 2014** to their designated point of contact:

<u>Country</u>	<u>Organisation</u>	<u>Contact name</u>	<u>Phone number</u>	<u>E-mail address</u>
All the countries	EFRAG	Alejandro Saenz	+32-22104400	alejandro.saenzmartinez@efrag.org
France	ANC	Isabelle Grauer-Gaynor	+33-153442980	isabelle.grauer-gaynor@anc.gouv.fr
UK	FRC	Jennifer Guest	+44-20 7492 2427	j.guest@frc.org.uk
Germany	ASCG	Holger Obst	+49-30 20641229	obst@drsc.de
Italy	OIC	Marco Mattei	+39-066976681	mmattei@fondazioneoic.it

Outline of the questionnaire

- 14 This questionnaire is structured as follows:

- Part 1: General questions and contact information
- Part 2: Questions on IFRS 3.

- 15 We ask you to respond only to those questions that are applicable in your circumstances and for which you have the information, and indicate the reasons for not responding.

- 16 In addition, you are requested to explain the assumptions and judgements made in answering the questions, as well as the simplifications used, along with the reasons for selecting the chosen alternatives.

The IASB's business combination project – what changed and when?

- 17 IFRS 3 was developed in two stages: the first in 2004 and the second in 2008 with an effective date of 1 July 2009.

- 18 The first version of IFRS 3 was issued in March 2004. The main changes to the prior Standard IAS 22 *Business Combinations* and the revised versions of IAS 36 and IAS 38 were:

- 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, are 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.

- 19 A revised IFRS 3 and amendments to IAS 27 *Consolidated and Separate Financial Statements* was issued in January 2008 an effective date of 1 July 2009. The main changes made were:
- 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.

Outline of the IASB's Request for Information

- 20 The following issues were identified by the IASB as areas of focus and were included in the Request for Information:
- (a) Definition of a business
 - (b) Fair value measurement
 - (c) Separate recognition of intangible assets from goodwill and the accounting for negative goodwill
 - (d) Non-amortisation of goodwill and indefinite-life Intangible assets
 - (e) Non-controlling interests
 - (f) Step acquisitions and loss of control
 - (g) Disclosures
 - (h) Other issues
- 21 The IASB's field work exercise focuses on these areas through a set of specific questions, which are included in Part 1 and 2 of this questionnaire. However, additional questions have been included to gather supplementary feedback.

QUESTIONNAIRE

PART 1: INFORMATION ABOUT YOU AS A PREPARER (USER) OF FINANCIAL STATEMENTS

Question 1 – Your background and experience

Please tell us:

- (a) About your role in relation to business combinations (i.e. role as preparer of financial statements).
- (c) Your principal jurisdiction.
- (d) Whether your involvement with business combinations accounting has been mainly with IFRS 3 (2004) or IFRS 3 (2008).
- (e) As a preparer of financial statements, please indicate 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.

Question 1b – Description of your business combinations

Please provide a high-level description of the business combinations that you considered in responding to the questions included in Part 2.

PART 2: UNDERSTANDING THE REQUIREMENTS IN IFRS 3 WHEN REPORTING A BUSINESS COMBINATION

Question 2 – Definition of a business

- (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, 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?

Question 3 – Fair value

- (a) To what extent is the information derived from the fair value measurements relevant and the information disclosed about fair value measurements sufficient? 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?
- (c) Has fair value measurement been more challenging for particular elements: for example, specific assets, liabilities, consideration etc?

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

- (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 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?

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

- (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 challenges in testing goodwill or intangible assets with indefinite useful lives for impairment, and why?

Question 6 – Non-controlling interests (NCI)

- (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? 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.

Question 7 – Step acquisitions and loss of control

- (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.

Additional questions

- (c) Have you encountered any operational (practical) difficulty in remeasuring any previously held equity interest at acquisition-date fair value?
- (d) Have you encountered any operational (practical) difficulty in remeasuring any retained equity interest at fair value upon loss of control in a former subsidiary?

Question 8 – Disclosures

- (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 the disclosures required by IFRS 3 or by the related amendments, and why?

Question 9 – Other matters

Are there other matters that you think the IASB should be aware of as it considers the Post-implementation Review 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 the Standard and the related amendments; and
- (c) any learning points for its standard-setting process.

Question 10 – Effects

From your point of view, which areas of IFRS 3 and any consequential amendments to other Standards:

- (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)?