

Alan Teixeira International Accounting Standards Board 30 Cannon Street London EC4M 6XH

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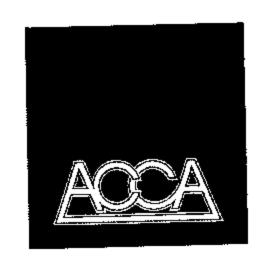
Dear Mr Teixeira

Amendments to IFRS3 Business Combinations and to IAS27 Consolidated and Separate Financial Statements

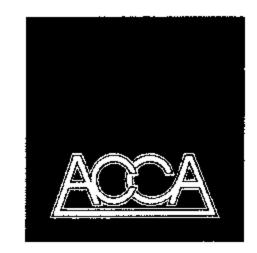
The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the above exposure drafts (ED). The EDs were considered by ACCA's Financial Reporting Committee and I am writing to give you their views.

Our overall view is that IASB should not proceed with the issue of amended standards based on these EDs at this time. The principal reasons for this are as follows.

• While the full goodwill recognition method proposed may have some advantages in terms of consistency of treatment with other assets and liabilities acquired, we are not convinced that it is a practical answer to acquisition accounting in cost/benefit terms. The valuation of the whole entity acquired will be a further cost of preparation of the financial statements to add to the extended intangibles valuations that were added by the present version of IFRS3. In many cases these valuations are going to be subjective estimates at best. The balance sheet value of goodwill, however, appears to be an item that many users of financial statements ignore. This revision to IFRS3 would provide the full value of goodwill at the acquisition date compared to the current provision of the goodwill attributable to the holding acquired. The extra costs do not appear to be justified by the usefulness (if any) of the extra financial information provided.



- The fair value model proposed for goodwill does not adequately cover the issue of transaction costs (as explained further in our answer to Q3 below). When it comes to the allocation of the goodwill to non-controlling interests, the control premium and the synergies that an acquirer may gain from the combination are not addressed satisfactorily.
- Where acquisitions are made in a series of steps the ED requires that any existing investments (which might have been available-for-sale financial instruments, or investments in associates or joint ventures) in the target company are revalued with any gain being part of the profit for the period. We are concerned that any such gain is going to be based in many cases on subjective estimates of the fair value. Furthermore this will treat the change in status of the holding as it were a disposal by the parent company, but one where the purchaser is itself and not a third party.
- The proposals in the EDs represent a significant change to an existing standard that has only recently started to be applied. This pace of change seems hard to justify in terms of the cost of changes. This is particularly difficult when the issues that the revised standard will resolve are not ones that appeared to have given rise to serious problems which undermined high quality financial reporting. The existing model of IFRS3 seems well accepted the difference between the cumulative costs of acquisition compared to the share of net assets acquired. The ED includes little in the way of justification of why this change is needed.
- The ED changes the underlying concept of whether the financial statements should be aiming to present the value of the entity or whether they should be focussed on supplying information to the shareholders of the parent company. This seems an important change in, or addition to, the Framework which deserved more consideration and debate. We are not in favour of making such a change at this time.
- IASB's due process in developing these proposals has been inadequate. The radical proposals should have been outlined in a discussion paper first to test whether they were likely to be worthwhile. IASB risks degrading its reputation by failing to follow its own due process.



ACCA's responses to the matters raised by IASB on IFRS3

Our responses to IASB's specific questions need to be seen in the context of our view that the ED should not proceed in its current form.

Q1. Definition of a business combination

We accept the objective of the definition. As with the alternative views set out in paragraph AV14 we prefer the existing wording in IFRS3 and agree that some may claim combinations are excluded on the issue of control.

Q2. Definition of a business

We agree with the proposed definition.

Q3. Measuring 100% of the fair value of the acquiree

We have some sympathy for the view that it is better in principle if goodwill were to be measured at 100% of its value in common with the other assets and liabilities recognised on acquisition and included in the consolidation. We note, however, that there are considerable difficulties in measuring the goodwill in this way. It is likely to be a subjective estimate in many cases and for this reason is going to be costly to preparers to obtain. It is not clear to us what extra useful information would be communicated to users as a result. We are not aware of significant unhappiness with the present method of calculating goodwill (cost of the investment less the value of the other assets and liabilities). Many users tend to ignore the balance sheet value of goodwill. If users are interested in this item they are more concerned with the overall value of the investment made. The current model for calculating goodwill would be more relevant to them in that case. We are not persuaded by the case for changing the existing model based on accumulated cost.

Q4. Sufficient guidance for measuring the fair value of an acquiree

We do not think the guidance sufficient in two ways.

The negotiation of the price that one enterprise will pay for another takes in a number of factors and it is hard to separate these in every case. The factors will include the transaction costs that the two parties will have to incur.



The treatment of the control premium is not set out clearly. The examples would imply that any premium should be included in the allocation of goodwill to the controlling party, but perhaps only when it can be clearly measured. Example 1 presumes there is no premium (which seems unrealistic) and in Example 3 the value of the non-controlling interest after acquisition remains in a range which is consistent with the pre-acquisition position. In reality the value of small non-controlling interests may be very low as they may not be entitled to access the synergies that result from the combination.

Q5. Is the acquisition date fair value of the consideration transferred the best evidence for the fair value of the interest acquired?

While we would agree with the general contention, we would prefer that the existing cost model should remain in place (as noted in our answer to Q3 above) when the issue does not arise. We are uncomfortable with the treatment of any gains arising on pre-acquisition equity stakes held by the acquirer. Restatements to fair value with the gain recognised in the profit and loss account (either by way of first time recognition or by way of recycling of gains previously recognised in equity) would in this case be based on the measures of fair value which may be subjective estimates and also akin to a sale to oneself.

Q6. Accounting for contingent consideration

We agree with the proposals here.

Q7. Acquisition related costs

We do not agree with the immediate write off of all acquisition related costs. As noted above in response to Q3, we would prefer basing the value of goodwill on the costs of the acquisition, which should include both the consideration paid to the vendor and unavoidable costs incurred by the purchaser. As noted in response to Q4 it is difficult to separate the consideration and the costs. We also note that this proposed treatment of acquisition costs would be inconsistent with other standards including IAS16 and IAS38. Furthermore the Board is engaged on projects to look at measurement objectives including initial measurement and at refining the meaning of fair value. Both of these will have to address in a general way the treatment of acquisition costs and we think revisions to IFRS3 should await their conclusion.



Q8. Measuring receivables and contingencies at fair value at the acquisition date

We agree with these proposals.

Q9. Exceptions to fair values at acquisition date

We agree with these. Assets held for sale should be measured at the value of their expected proceeds net of costs. Deferred taxes and employee benefit obligations are not amenable to meaningful fair valuation given their entity-specific nature.

Q10. Accounting for business combinations achieved in steps

We do not agree with the proposals here. We would prefer to retain the accumulation of cost model (see Q3) and are uncomfortable with the the recognition of these gains (see Q5).

Q11 and 12. Accounting where consideration is less than fair value of the net assets acquired

We agree with the proposals here.

Q13. Post acquisition adjustments

We agree with the proposals that there should be an adjustment period of up to one year after the acquisition during which the fair values can be reestimated.

Q14. Assessing the consideration that was part of the exchange

We consider the guidance provided is sufficient.

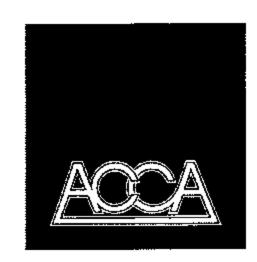
Q15. Disclosures

We agree with the disclosures proposed.

Q16, 17 and 18. Convergence with US GAAP

We agree with the approach of the ED in these areas.

ACCA's responses to the matters raised by IASB on IAS27



Our responses to IASB's specific questions need to be seen in the context of our view that the ED should not proceed in its current form.

Q1. Recognition of gains and losses from disposals that do not involve loss of control

We support the existing model of consolidation with a perspective of the shareholders in the parent company and therefore disagree with these proposals. The shareholders in the parent company are the investors for whom the financial statements are prepared and not for investors forming non-controlling interests for whom separate financial statements of the subsidiary involved would be most relevant. Under the proposals there could be significant transactions giving rise to assets and liabilities and affecting the rights of the parent company to future profits and cash flows from parts of the group, which would not have not been highlighted by their presentation in the profit and loss account.

Q2. Remeasurement to fair value on loss of control

We would prefer the remaining non-controlling interest to be subject to an impairment test. We would not necessarily see, for example, that fair value gains should be recognised at this point.

Q3. Treatment of multiple arrangements with loss of control

We agree that these may have to be aggregated to account for the substance of the transactions.

Q4. Loss allocation

We agree with the proposals.

Q5. Transitional arrangements

We agree with the proposals.

If there are matters arising from any of the above please be in touch with me.

Yours sincerely



Richard Martin

Head of Financial Reporting