

28th October 2005

International Accounting Standards Board  
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Dear Sir/Madam

### **Exposure Draft of Proposed Amendments to IFRS 3 Business Combinations**

#### **General Comments**

We are pleased to have the opportunity to provide our comments to the proposals contained in the Exposure Draft on the proposed amendments to IFRS 3.

We are not convinced of the need for the fundamental change to fair value accounting. This is on the basis that the current approach is readily understood, it would be inconsistent with the Framework, would result in the need for a great deal of education of stakeholders, will result in measurement issues, particularly in less than 100% acquisitions, and will be costly to implement.

However, if the fundamental change were to occur we could not support the proposed approach (the "entity" approach) as it currently stands. This is because we can foresee more issues arising from the proposed changes than from continuing with existing practice, as the changes would cause significant issues in education, application and measurement. It is our belief that further consideration needs to be given to this area prior to the finalisation of an approach.

Our comments in relation to the specific matters outlined in the ED are detailed below.

**Question 1 – Are the objective and definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternatives do you suggest?**

We agree the definition and objectives are appropriate.

**Question 2 – Are the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business? If not, how would you propose to modify or clarify the definition or additional guidance?**

We believe that the definition and additional guidance are appropriate and sufficient.

**Question 3 – In a business combination in which the acquirer holds less than 100 per cent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognise 100 per cent of the acquisition-date fair value of the acquiree, including 100 per cent of the values of identifiable assets acquired, liabilities assumed and goodwill, which would include the goodwill attributable to the non-controlling interest? If not, what alternative do you propose and why?**

Conceptually, we are not convinced of the need for the fundamental change to fair value accounting, whereby 100 percent of the goodwill, including the goodwill attributable to the non-controlling interest, would be recognised. Our position is based on the fact that it would be inconsistent with the Framework as it currently stands, would result in the need for a great deal of education of impacted stakeholders, will result in measurement issues, particularly in less than 100% acquisitions, and will be costly to implement.

The Board argues that the objective of consolidation under the Framework is to provide information about the economic resources controlled by the parent. Therefore, this should include 100% of all of the assets under its control, with goodwill being included as an asset under control. Goodwill is allocated between controlling and non-controlling interests. Under this method, the goodwill allocated to the controlling interest may not correspond to their ownership percentage if the consideration paid includes a premium which is above the total fair value of the acquiree. In this way the additional premium is allocated entirely to the controlling interest.

We have concerns with the presumption that the acquisition price for less than 100% is indicative of the total fair value of the acquiree as a whole, and in most cases a separate valuation would be required. The ED method of calculating goodwill involves valuing the business as a whole, which is difficult and subjective, rather than the current method of using the purchase consideration which is far easier to determine. Also, the allocation of the full goodwill between controlling and non-controlling interests is difficult because of the valuation issues and trying to appropriately deal with synergies and control premiums in the allocation. These issues will add cost and complexity to an area that is already difficult to apply. In addition, recognising goodwill that has not been purchased (i.e. the minority interest share) is inconsistent with IAS 38 Intangible Assets, which prohibits the recognition of "internally generated" assets.

**Question 4 – Do paragraphs A8-A26 in conjunction with Appendix E provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?**

We do not consider the guidance to be sufficient in this area. We believe that this area is very subjective and open to interpretation. Additional guidance is needed for treatment of entities not included on Stock Exchanges, and how you determine what "any" entity would pay. The danger is that the purchase price will be grossed up as a proxy for fair value, rather than using other valuation techniques. This approach may not always provide the most relevant or reliable result.

**Question 5 – Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree the best evidence of the fair value of that interest? If not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?**

We agree that this is the best evidence and it provides a practical solution.

**Question 6 – Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?**

We agree with the principle. However, we note that it is difficult to value the contingency, and is highly subjective.

**Question 7 – Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?**

We disagree with the suggestion in this question 7 as it is inconsistent with the acquisition of all other assets. In Basis for Conclusion paragraph BC88, the Board acknowledges this inconsistency but states that the acquisition of other assets is out of scope. The Board also notes that the proposal is a step in the right direction to improve financial reporting.

However, by changing the accounting for these costs in relation to business combinations, they have also indirectly ruled for other asset acquisitions without changing the accounting. The Board should either change the accounting for direct acquisition-related costs for all assets or leave the current practice in place until it is prepared to do so.

We note that the Board argues that these costs are buyer specific and are not part of the fair value of the asset. However, although these costs might be different from buyer to buyer (some will incur more, some less), they are costs that all buyers will reasonably incur in acquiring a particular asset, and are willing to pay.

**Question 8 – Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you propose?**

We agree with the proposed changes both in principle and in relation to the items specifically mentioned.

**Question 9 – Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?**

The exceptions relate to areas where fair value cannot be measured reliably. IFRS 3 treatment should be consistent with other Standards.

**Question 10 – Is it appropriate for the acquirer to recognise in profit or loss any gain or loss on previously acquired non-controlling equity investments on the date it obtains control of the acquiree? If not, what alternative do you propose and why?**

The proposal essentially treats the non-controlling investment and the subsequent controlling investment as completely separate assets. The Basis for Conclusions points to the exchange of assets requirement, which is booked at fair value, to argue this point. It views the non-controlling interest as part of the consideration paid for the acquisition, and as such should be fair valued. Conceptually, we have difficulty treating what is a different level of investment in the same entity as separate assets.

**Question 11—Do you agree with the proposed accounting for business combinations in which the consideration transferred for the acquirer's interest in the acquiree is less than the fair value of that interest? If not, what alternative do you propose and why?**

We agree with the proposed treatment.

**Question 12—Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date? If so, in what circumstances?**

We do not believe any overpayment could be measured reliably. The accounting for any overpayment is best addressed in subsequent impairment tests.

**Question 13—Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?**

We agree with adjusting comparative information, as long as appropriate disclosures are made regarding the adjustment and its effect on the comparative year.

**Question 14—Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree? If not, what other guidance is needed?**

We believe the guidance is sufficient.

**Question 15—Do you agree with the disclosure objectives and the minimum disclosure requirements? If not, how would you propose amending the objectives or what disclosure requirements would you propose adding or deleting, and why?**

Although not an amendment, the disclosure regarding showing the business combination as if it had occurred at the start of the period is difficult and potentially misleading. This is because companies often restructure acquired businesses and obtain synergies which would not be factored in to the disclosure. The proposed disclosure is merely an aggregation which would not necessarily be a true reflection of the combined business.

**Question 16—Do you believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognised separately from goodwill? If not, why? Do you have any examples of an intangible asset that arises from legal or contractual rights and has both of the following characteristics:**

- (a) the intangible asset cannot be sold, transferred, licensed, rented, or exchanged individually or in combination with a related contract, asset, or liability; and
- (b) cash flows that the intangible asset generates are inextricably linked with the cash flows that the business generates as a whole?

We agree with the removal of the reliably measurable criteria for recognising a separately identifiable asset.

**Question 17—Do you agree that any changes in an acquirer's deferred tax benefits that become recognisable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination? If not, why?**

We agree they should be accounted separately.

**Question 18—Do you believe it is appropriate for the IASB and the FASB to retain those disclosure differences? If not, which of the differences should be eliminated, if any, and how should this be achieved?**

We fully support full convergence with the FASB. As noted above, the SFAS 141 requirement to disclose impact of acquisition as if it had occurred at the start of the comparative period is difficult and subjective disclosure. We would recommend that US GAAP eliminate this disclosure.

**Question 19—Do you find the bold type-plain type style of the Exposure Draft helpful? If not, why? Are there any paragraphs you believe should be in bold type, but are in plain type, or vice versa?**

We find it useful to differentiate between the principles and the guidance.

We thank you for the opportunity to comment on these changes. Please contact Garth Campbell-Cowan on +61(3) 9634 6470 if you need any further explanation on any of the comments made in this submission.

Yours sincerely,



Geoff Nicholson  
Director Business and Finance Services