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International Accounting Standards Board 30 Cannon Street London EC4M 6XH

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Our ref: DEB/PL/Amendments to IFRS 3 response

Letter of Comment No: 222 File Reference: 1204-001

Dear Sirs

Amendments to IFRS 3 Business Combinations

Following your issue of the exposure draft for amendments to IFRS 3, we have set out below the Charity Finance Directors' Group (CFDG) response to your proposals.

CFDG is a membership organisation set up in 1987 and specialises in helping charities to manage their accounting, taxation, audit and other finance related functions. A growing membership of over 1,100 members shares knowledge, skills and experience to develop and promote good practice and to find solutions to problems.

You have asked is IFRS 3 suitable for accounting for all business combinations.

Although in the charity sector take-overs do occur, it is also very common for charities to come together and pool their expertise, skills and resources (e.g. Cancer Research UK). In this situation we do not believe the accounting requirements of IFRS 3 are appropriate as:

- The combination of two charities is often a very delicate process in which the beneficiaries of each charity are very concerned that their interests will be overlooked in the new entity. The use of acquisition accounting is likely to further heighten these concerns as they will now perceive that one charity is taking over the other. As a result, business combinations may be avoided. This would be at odds with the Charity Commission's recommendation that charity's should be working more closely together and, if necessary, merging so that beneficiaries receive the best possible service.
- Where two charities are merging, the identification of an acquiree and acquirer may be an arbitrary process. The resultant fair value adjustments will not add any value to a reader of the accounts. Indeed, the accounts may be more confusing as some assets will be stated at historic cost while others are at fair value. There may be high costs associated with the fair value exercise which will bring little or no benefit to either the charity's beneficiaries or supporters (the charity's defining class of user).



 The introduction of goodwill into the combined entity's balance sheet is likely to make the accounts harder to understand by the average person in the street. This may well be the same people that the combined entity will be targeting to help support the charity's activities.

You have asked if IFRS 3 provides sufficient guidance for measuring the fair value of an acquiree.

The one area we feel the guidance is not sufficient is how a charity should value its heritage assets. Heritage assets are assets of historical, artistic or scientific importance that are held to advance preservation, conservation and educational objectives of charities and through public access contribute to the nation's culture and education either at a national or local level. As a result, the valuation techniques set out in appendix E of the IFRS do not give an adequate approach to valuing heritage assets acquired in a business combination.

You have asked if we 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.

We agree that such costs are not part of the consideration transferred in exchange for the acquiree. However, such costs are solely and necessarily incurred in acquiring another entity. As a result, we believe such costs should form part of the acquisition price. This will also be consistent with the treatment of professional fees incurred in acquiring properties.

We would be pleased to discuss these views further if it would be helpful.

Yours faithfully

Shirley Scott
Chief Executive
Charity Finance Directors Group