Letter of Comment No: 190 File Reference: 1204-001

Mr Alan Teixeira Senior Project Manager International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom

27th October 2005

Dear Mr Teixeira,

We are writing in response to the invitation to comment on Exposure Draft of Proposed Amendments to IFRS 3 "Business Combinations"

Should you have any queries, please do not hesitate to contact me.

Yours sincerely

Declan Nestor B.Comm, MSC, ACIS, MCIPD, ACA, FCPA Chairman Financial Reporting Sub-Committee Institute of Certified Public Accountants in Ireland

IFRS 3

IASB 1

Are the objectives 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 suggest you make an exception and what alternative would you suggest?

Yes, we agree the objectives and definition of a business combination are appropriate for accounting for all business combinations.

IASB 2

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

Yes we agree that the definitions and guidance are appropriate for determining whether the assets acquired and liabilities assumed constitute a business.

IASB 3

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

No we do not agree with the above proposal, for the reasons set out by the "Alternative view" expressed by some of the board members

In particular the argument that the claims of the non controlling interests are restricted to the subsidiary, whereas controlling interest are affected by performance of the entire group. Thus the residual interest in the group's surplus or loss lies with the parent entity investors. Thus from a group perspective only the parent entity investors could be described as Group Equity.

IASB 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 should be given?

The maximum/minimum period over which the market price of shares should be observed. How does one distinguish between temporary impacts on market values and long-term impacts?

IASB 5

Is the acquisition date fair value consideration transferred in exchange for the acquirer's interest in the acquiree the best evidence of the fair value of the 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?

Yes, we agree that the acquisition date fair value consideration is the best evidence of the fair value of the interest as the acquisition date is the date on which control passes.

IASB 6

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

Yes

IASB 7

Do you agree that costs that 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 not?

Yes

IASB 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?

Yes

IASB 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?

Yes, we believe the exceptions to the fair value measurement principle are appropriate.

IASB 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 means do you propose and why?"

No, we do not agree it is appropriate for the acquirer to recognise, in the Profit or Loss statement, any gain or loss on previously acquired non-controlling interest. The value of the additional tranche of shares which gave the parent acquirer overall control, may in a "knowing buyer and knowing seller" market, include an incremental value-control premium- which has been factored in by the prospective seller. Thus the price for the additional tranche of shares might not have been as high if the prospective buyer did not already possess a non-controlling tranche that in combination with the proposed purchase would result in control. For example the combined price of say the historical cost of 15% stake previously purchased and the market value of say an additional 45% stake purchased might approximate to the market value of say 60% purchased in one

lump sum. This is because the seller, in a normal market, is aware that his/her share stake will enable the prospective buyer to acquire control.

IASB 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 would you propose and why?

Paragraph 49 defines goodwill as the difference between a fair value of 100% of the acquiree assets and liabilities irrespective of the fact that less than 100% acquired.

There appears to be an inconsistency in the IFRS. On the one hand it proposes to bring on to the group balance sheet the non controlling interest share of total goodwill.

Yet at the same time it proposes

"that in a business combination in which the consideration transferred for the acquirer's interest in the acquiree is less than the fair value of that interest referred to as a bargain purchase] any excess of the fair value of the acquirer interest in the acquiree over the fair value of the consideration transferred for that interest would reduce the goodwill until the goodwill related to that business is reduced to zero and any remaining excess would be recognised in the profit & loss on acquisition date"

There is an inconsistency, which is acknowledged in BC 177 on the grounds of uncertainty of measurement. Yet the same argument-measurement uncertainty - can be applied for positive goodwill

IASB 12

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

Yes, we believe there are circumstances in which the amount of an overpayment could be measured reliability at the acquisition date.

IASB 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?

Yes if such measurement adjustments satisfy IAS 8

IASB 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?

Yes, we believe there is sufficient guidance in this part of the exposure draft.

IASB 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?

Yes we agree with the disclosure requirements and objectives.

IASB 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 the following characteristic's

The framework requires that for the recognition criteria to apply, an item must meet the definition of an element

- (a) It is probable that any future economic benefits associated with the item will flow to or from the entity
- (b) the item has a cost that can be measured with sufficient reliability F82 and F83

It is seems a highly improbable certainty to suggest that there are no circumstances in which an intangible asset cannot be reliably measured.

IASB 17

Do you agree that any changes in an acquirees 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?

Yes, we agree with the above.

IASB 18

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

Yes we believe that it is appropriate for the IASB and FASB to retain those disclosure differences because there are still differences between both accounting frameworks and legal environments. Convergence should not be considered as an argument either for or against any proposal.

IASB 19

Do you find the bold type-plain 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

Yes we find the bold type-plain style of the exposure draft helpful.