

## Foreningen af Statsautoriserede Revisorer

Kronprinsessegade 8, 1306 København K. Telefon 33 93 91 91 Telefax nr. 33 11 09 13 e-mail: fsr@fsr.dk Internet: www.fsr.dk

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

E-mail: CommentLetters@iasb.org

18 November 2005 x:\udvalg\regu\iasc board\question.doc\OSJ/ks

Exposure Draft: Proposed Amendments to IFRS 3, Business Combinations, and IAS 27, Consolidated and Separate Financial Statements

The Danish Accounting Standards Committee is pleased to comment on the proposed amendments to IFRS 3 and IAS 27. The drafts were discussed at the October and November meetings of the Danish Accounting Standards Committee. We apologize for our late answer.

We support seeking convergence as a long term goal, if convergence results in better accounting solutions. However, we do not support the proposals for very radical changes of IFRS 3 and IAS 27 at this stage.

We do not find that the IASB has carried out sufficient research and analysis and debate on the issues with interested parties. We believe that the proposals should have been subject to full international debate through the issuance of a discussion paper and extensive field testing.

Many entities in Denmark and other European as well as non-European companies are in the process at adopting IFRS for the first time and making significant changes to their accounting policies. It would be premature and too burdensome to make such radical changes — as proposed in the EDs — at this point.

In our opinion, the existing IFRS 3, which is quite new, does not contain significant inconsistencies, defects or errors. Furthermore, the users of financial statements (e.g. financial analysts) have not to our knowledge raised major criticism or objections to the current IFRS 3.

We therefore urge the IASB to reconsider the proposed EDs. In this respect we would like the Board to elaborate further on the treatment of business combinations involving entities or businesses under common control and business combinations between equivalent parties.

Our detailed comments appear from the following appendix.

If you have any questions to our comment, please do not hesitate to contact us.

Yours sincerely

Eskild Nørregaard Jakobsen Chairman of the Accounting Standards Committee Ole Steen Jørgensen Head of Department, Secretary to the Accounting Standards Committee

Letter of Comment No: 258

File Reference: 1204-001

## IFRS 3

**Question 1** 

Are the objective and the 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 alternative do you suggest?

No. When it is not possible to identify an acquirer, the combination should not be treated as an acquisition.

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?

No. The new definition would broaden the scope of situations that could satisfy as a business. We are concerned about the difference in accounting treatment between acquisition of group of assets (IAS 16) and business combinations.

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?

No. It is very subjective to measure the premium that would have been paid for 100 % of the business. There are major practical difficulties in measuring the total fair value of the acquiree. We propose to retain the current cost approach model in IFRS rather then introducing the fair value approach in the exposure draft.

The current cost approach is not that flawed compared to the fair value approach. Users of financial statements have not asked for this radical change.

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?

No. E. g. how to measure potential control premium and how to measure fair value for non-listed companies.

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?

Yes. You might presume that the fair value of the consideration transferred is often the best evidence of the fair value of the acquirer's interest in the acquiree.

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

No. The fair value of contingent consideration will be too difficult to measure in practice and implies to much subjectivity. If you are not allowed to make corrections to the consideration and the purchase price, the fair value model might lead to a misrepresentation of the purchase price and of the statement of profit and loss. We would prefer the existing cost approach model and the possibility to make adjustments to the consideration (the purchase price).

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?

No. This would be inconsistent with other existing standards where the direct cost is included in the carrying amount of the asset.

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?

No. We find that probability should be kept as a recognition criterion.

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?

Yes.

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?

No. The transaction is on one's own assets. A gain from an enhancement of the share-holder's interest should be included directly in equity.

**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?

No. The change in measurement basis to fair value should not be decided until a comprehensive analysis and debate has been undertaken.

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?

No.

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?

Yes.

**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?

Yes.

**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?

No. Some disclosures are too extensive and burdensome. We very much doubt that IASB has considered casts and benefits of each of the disclosures, which are required in the ED, as well as the feasibility of there disclosures.

## 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?

No. E. g. when an active market does not exist. Already in the current IFRS 3 it is in practice very difficult to measure all intangibles reliable.

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?

Yes.

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?

Yes. However we would recommend FASB to consider harmonising their disclosure requirements with the IAS/IFRS standards.

**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?

Yes.