Exposure Drafts of Proposed Amendments to:
IFRS 3 Business Combinations
IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits
IAS 27 Consolidated and Separate Financial Statements

Opening statement

The British Bankers’ Association welcomes the opportunity to comment on the Exposure Drafts of Proposed Amendments to IFRS 3 ‘Business Combinations’, to IAS 37 ‘Provisions, Contingent Liabilities and Contingent Assets’ and IAS 19 ‘Employee Benefits’ and to IAS 27 ‘Consolidated and Separate Financial Statements’ (together ‘the EDs’).

The proposals include very significant changes to existing practice. We are therefore extremely surprised that they have appeared as EDs rather than in discussion papers. Although a discussion paper is not a mandatory step in the Board’s due process, we firmly believe that if the Board is to maintain the confidence of its constituents, major revisions to IFRS such as these must be the subject of one or more discussion papers allowing a meaningful dialogue between the Board and its constituents.

We consider that two of the proposals in the EDs to be particularly ill-judged in changing current requirements with no perceptible improvement in the quality of financial reporting.

We do not support moving from the current parent company consolidation approach to an entity model. We see no theoretical flaws in the parent company view. The entity model introduces additional complexity thus reducing understandability with no compensating increase in relevance. We believe that the Board should not move to the entity model without further detailed discussions with interested parties.

We are also opposed to the Board’s proposed change in the application of the probability criterion in the recognition and measurement of liabilities. We believe probability is inherent
in the definition of a liability in the Board's framework and therefore in the decision to recognise a liability. We question whether the Board's approach will result in data that are useful to users of financial statements.

Our response to the specific questions posed in the exposure drafts are set out below.

**Issues raised in the invitation to comment**

**ED OF PROPOSED AMENDMENTS TO IFRS 3 BUSINESS COMBINATIONS**

**Question 1 – Objective, definition and scope**

*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?*

We continue to believe that true mergers occur in practice. However, given that this view is not supported by the Board, we do not object to extending the principles of IFRS 3 to business combinations involving only mutual entities and to business combinations achieved by contract alone.

**Question 2 - Definition of a business**

*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 agree with the Board’s view that it should clarify when a group of assets or net assets constitute a business as the accounting differs. However, we do not consider that the Board definition is sufficiently determinate. The guidance in paragraphs A2 to A7 is inelegantly drafted and somewhat confusing. It would be significantly enhanced by examples illustrating the underlying concepts in order to draw out the critical differences between a business and a collection of assets and liabilities.
Questions 3 - 7 - Measuring the fair value of the acquiree

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?

We support the views of the dissenting Board members set out in paragraphs AV2 – AV7. The Basis for Conclusions asserts that relevant information is provided by the full goodwill method. The argument for this position is that financial statements that include all assets under the entity’s control are more useful; goodwill is an asset, therefore the full amount of goodwill should be recognised. This reasoning sidesteps the crucial question: is the full amount of goodwill more useful for the reader than the acquirer’s share. We do not believe that it is.

As stated above, we have grave concerns over the move to an entity model for consolidated financial statements. The entity model may have merit but this has not been the subject of public debate following the publication of a discussion paper nor is it convincingly demonstrated by the Board in its exposure draft.

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?

Paragraphs A8 to A26 illustrate the difficulties and complexities in determining the fair value of the acquiree as a whole on the basis of a transaction in which a majority stake is acquired. In our view, although these impediments could be overcome, the accounting proposed by the Board is flawed and its costs outweigh its benefits. The Board’s assertion that this approach will improve the relevance and reliability of financial information is in our view misguided.

We note that the Board’s definition of the definition of fair value is based on that in the FASB’s Proposed Statement *Fair Value Measurements* and that this may change in FASB’s
final statement. It is not clear what action, if any, the Board plans to take if FASB amends the definition.

**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, we agree with the Board’s view that the fair value of the consideration given on the date of acquisition is the best evidence of the fair value of the acquired interest.

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

Yes.

**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. We support the views of the dissenting members set out in AV18. We consider the costs of acquisition to be an element of the consideration and that they should be treated as such.

**Questions 8 and 9—Measuring and recognising the assets acquired and the liabilities assumed**

**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?**

Yes.
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. There are no further exceptions that we would add.

Questions 10-12 - Additional guidance for applying the acquisition method to particular types of business combinations

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?

We believe that measuring the acquisition date fair value of the non-controlling interest will be problematic. We do not regard the proposed accounting as conceptually or practically superior to current accounting.

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 have some concerns about the Board’s proposal to recognise a gain where consideration is less than the fair value of net assets acquired. Bargain purchases can happen but there seems to us difficulty in identifying them unambiguously – there are other reasons for negative goodwill. We prefer the UK GAAP approach to negative goodwill set out in FRS 10.

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?

Yes, but only in very limited circumstances; for example where the financial data underpinning the investment decision prove to be seriously misstated. In general, however investors do not overpay and identifying such overpayment would prove very difficult.
Question 13 - Measurement period

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 - Assessing what is part of the exchange for the acquiree

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. However, as noted in our response to question 7 above, we believe that transaction costs should be included in the measurement of consideration.

Question 15 - Disclosures

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?

Yes.

Questions 16-18—The IASB’s and the FASB’s convergence decisions

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 are not clear why the Board is asking this question. It is a matter of fact whether an identifiable intangible asset can be measured reliably; if it cannot then the framework does not permit it to be recognised as an asset. We do not understand what operative change is brought about by removing the reliability criterion from IFRS 3 when it continues to be required by the framework.

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?

There seems to be little point in retaining minor disclosure differences given the Boards’ convergence objective.

Question 19 - Style of the Exposure Draft

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 do not favour the bold-plain type style. As all paragraphs have equal authority, it seems redundant.
ED OF PROPOSED AMENDMENTS TO IAS 27 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Question 1

Draft paragraph 30A proposes that changes in the parent’s ownership interest in a subsidiary after control is obtained that do not result in a loss of control should be accounted for as transactions with equity holders in their capacity as equity holders. As a result, no gain or loss on such changes would be recognised in profit or loss (see paragraph BC4 of the Basis for Conclusions).

Do you agree? If not, why not and what alternative would you propose?

No. We support the alternative view set out in paragraphs AV1 – AV3. We believe that the parent entity approach to consolidated financial statements.

Question 2

Do you agree that the remaining non-controlling equity investment should be remeasured to fair value in these circumstances? If not, why not and what alternative would you propose?

Do you agree with the proposal to include any gain or loss resulting from such remeasurement in the calculation of the gain or loss arising on loss of control? If not, why not, and what alternative would you propose?

We do not support remeasurement to fair value where the retained interest qualifies as an associate or joint venture. The accounting for these types of interest in consolidated financial statements involves recognition of the underlying net assets – we see no persuasive argument for fair value measurement.

Question 3

Do you agree that it is appropriate to presume that multiple arrangements that result in a loss of control should be accounted for as a single arrangement when the indicators in paragraph 30F are present? Are the proposed factors suitable indicators? If not, what alternative indicators would you propose?
Yes.

**Question 4**

*Do you agree with the proposed loss allocation? Do you agree that any guarantees or other support arrangements from the controlling and non-controlling interests should be accounted for separately? If not, why not, and what alternative treatment would you propose?*

We prefer the current approach where losses in excess of the non-controlling interest are allocated to the controlling interest unless the non-controlling shareholders are committed to reimbursing the losses.

**Question 5**

*Do you agree that proposed paragraphs 30A, 30C and 30D should apply on a prospective basis in the cases set out in paragraph 43B? Do you believe that retrospective application is inappropriate for any other proposals addressed by the Exposure Draft? If so, what other proposals do you believe should be applied prospectively and why?*

We support the requirements of paragraph 43B.

**ED OF PROPOSED AMENDMENTS TO IAS 37 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS IAS 19 EMPLOYEE BENEFITS**

**PROPOSED AMENDMENTS TO IAS 37 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

**Question 1 – Scope of IAS 37 and terminology**

(a) *Do you agree that IAS 37 should be applied in accounting for all non-financial liabilities that are not within the scope of other Standards? If not, for which type of liabilities do you regard its requirements as inappropriate and why?*
Yes.

(b) *Do you agree with not using 'provision' as a defined term? If not, why no?*

Yes.

**Question 2 – Contingent liabilities**

(a) *Do you agree with eliminating the term ‘contingent liability’? If not, why not?*

Yes.

(b) *Do you agree that when the amount that will be required to settle a liability (unconditional obligation) is contingent on the occurrence or non-occurrence of one or more uncertain future events, the liability should be recognised independently of the probability that the uncertain future event(s) will occur (or fail to occur)? If not, why not*

No. We agree with the analysis in the alternative view set out in paragraphs AV 2 to AV 7. The Framework definition of a liability clearly implies that probability should be taken into account in the decision on whether or not to recognise a liability: ‘is expected to result in an outflow’. The convoluted and unpersuasive discussion on the distinction between conditional and unconditional obligations provides little concrete explanation of how the Board’s approach should be applied in practice.

**Question 3 – Contingent assets**

(a) *Do you agree with eliminating the term ‘contingent asset’? If not, why not?*

Yes.

(b) *Do you agree that items previously described as contingent assets that satisfy the definition of an asset should be within the scope of IAS 38? If not, why not?*

Yes.
**Question 4 – Constructive obligations**

(a) *Do you agree with the proposed amendment to the definition of a constructive obligation? If not, why not? How would you define one and why?*

The minor amendments to the definition itself seem to us to have left its meaning unchanged.

(b) *Is the additional guidance for determining whether an entity has incurred a constructive obligation appropriate and helpful? If not, why not? Is it sufficient? If not, what other guidance should be provided?*

Guidance on the practical effect of the changed emphasis would be most useful. It appears that the intention is that some constructive obligations will mean be recognised later; examples illustrating this would help readers to understand the practical application of the revised definition.

**Question 5 – Probability recognition criterion**

*Do you agree with the analysis of the probability recognition criterion and, therefore, with the reasons for omitting it from the Standard? If not, how would you apply the probability recognition criterion to examples such as product warranties, written options and other unconditional obligations that incorporate conditional obligations?*

No. As noted in our answer to question 2 above, we believe that the notion of probability is inherent in the framework definition of a liability. If a present obligation is not expected to result in an outflow it does not meet the framework definition of a liability and hence should not be recognised.
Question 6 – Measurement

Do you agree with the proposed amendments to the measurement requirements? If not, why not? What measurement would you propose and why?

No. We support the current approach in IAS 37 and do not consider the revised methodology as conceptually valid. A probability measurement criterion is only appropriate for a statistically significant population of similar items.

Question 7 – Reimbursements

Do you agree with the proposed amendment to the recognition requirements for reimbursements? If not, why not? What recognition requirements would you propose and why?

The discussion in paragraph 47 illustrates that the Board’s distinction between conditional and unconditional is not entirely crisp. The asset is the unconditional right to receive reimbursement and the conditional right is the reimbursement itself. However, an asset is some form of cash inflow. The only cash inflow is the reimbursement. It is not obvious how the Board is able to distinguish two separate items: the right to receive reimbursement and the reimbursement itself. It seems to us that there is a right to receive a future cash flow (the reimbursement) this is unconditional, the quantum of the reimbursement is contingent but not conditional.

Question 8 – Onerous contracts

(a) Do you agree with the proposed amendment that a liability for a contract that becomes onerous as a result of the entity’s own actions should be recognised only when the entity has taken that action? If not, when should it be recognised and why?

Yes. The drafting of paragraph 55 would be improved by the addition of ‘existing’ before contract in the first line.
(b) Do you agree with the additional guidance for clarifying the measurement of a liability for an onerous operating lease? If not, why not? How would you measure the liability?

Yes.

(c) If you do not agree, would you be prepared to accept the amendments to achieve convergence?

Question 9 – Restructuring provisions

(a) Do you agree that a liability for each cost associated with a restructuring should be recognised when the entity has a liability for that cost, in contrast to the current approach of recognising at a specified point a single liability for all of the costs associated with the restructuring? If not, why not?

Yes.

(b) Is the guidance for applying the Standard’s principles to costs associated with a restructuring appropriate? If not, why not? Is it sufficient? If not, what other guidance should be added?

The guidance in paragraphs 60 to 62 is not particularly detailed and the amendments to example 5 do not help in identifying the practical effect of the changes.
PROPOSED AMENDMENTS TO IAS 19 EMPLOYEE BENEFITS

Question 1 – Definition of termination benefits

*Do you agree with this amendment? If not, how would you characterise such benefits, and why?*

Yes.

Question 2 – Recognition of termination benefits

*Is recognition of a liability for voluntary and involuntary termination benefits at these points appropriate? If not, when should they be recognised and why?*

Yes.

Question 3 – Recognition of involuntary termination benefits that relate to future service

*Do you agree with the criteria for determining whether involuntary termination benefits are provided in exchange for future services? If not, why not and what criteria would you propose? In these cases, is recognition of a liability over the future service period appropriate? If not, when should it be recognised and why?*

Yes.