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EXPOSURE DRAFT OF PROPOSED Ammendments to IFRS 3 Business Combinations and EXPOSURE DRAFT OF PROPOSED Ammendments to IAS 27 Consolidated and Separate Financial Statements

FAR, the institute for the accountancy profession in Sweden is responding to your invitation to comment on the above mentioned Exposure Draft of Proposed Amendments to IFRS 3 Business Combinations and Exposure Draft of Proposed Amendments to IAS 27 Consolidated and Separate Financial Statements.

FAR strongly supports the efforts by the Board to achieve convergence between U.S. GAAP and IFRS with respect to accounting for business combinations. However, FAR has some concerns regarding the proposed amendments, and these concerns are described below in our overall comments and in responses to the questions raised in the exposure draft.

Overall Comments

The proposed amendments to IFRS 3 will result in significant changes in accounting for business combinations and will also change concepts that are contained in the Framework. FAR believes that, when proposing such significant changes the process would benefit from first discussing those changes in a discussion paper to be commented upon.

FAR is also concerned that certain of the proposed significant changes appear to rely on the outcome of ongoing projects not yet finalised, e.g. the Conceptual Framework project, the Fair Value Measurement project, the Financial Performance Reporting project and the Liabilities and Equity project. FAR believes that it is difficult to finally conclude on those proposed amendments that might be affected by the final outcome of the ongoing projects mentioned above. As a consequence, FAR believes that the exposure draft/-s should not be finalised until those projects are completed.

There are references in the exposure draft to ongoing or coming work for instance accounting for business combinations under common control, joint ventures and the new basis of accounting (fresh start accounting). FAR recommends the Board to start the work to develop guidance for such transactions as soon as possible and especially with respect to common control transactions, which is an area where FAR believes there is an urgent need for guidance within IFRS.
As described in IN4, the Board decided to address the financial accounting for business combinations in two phases. It is our belief that it is of great importance, that decisions taken in phase I are not significantly revised in the second phase, unless there is logic and strong reasons supporting the revised conclusion. The proposed amendments in the exposure draft on definitions and accounting for contingent considerations result in changes compared to the current version of IFRS 3 which will affect the established accounting treatment based on the decisions taken in the first phase of the business combination project.

FAR does not agree with the proposed adoption of a full goodwill approach, requiring the fair value of the acquiree as a whole to be measured. FAR argues that the standard should continue to be based on the parent-only/cost based approach of the current IFRS 3. Under this approach, FAR agrees that 100 percent of the identifiable assets acquired and the liabilities assumed in a business combination at fair value provide meaningful and adequate financial information. However, FAR cannot see that the costs and, in our view, the uncertainties raised by recording the fair value of the acquiree as a whole (including goodwill attributable to the non-controlling interest) outweigh the benefits of providing this information at this time. Although FAR understands the logic behind the Board’s view, that goodwill should be accounted for as any other identifiable asset, we do not agree. FAR supports the dissenting board members’ view that goodwill is different from other types of assets and thus should be accounted for differently.

FAR also disagrees with the Board’s conclusion that revaluation gains or losses on previously acquired non-controlling investments should be recognised in profit or loss. Instead, FAR favours recognition of such revaluation gains or losses in equity.

FAR is not convinced that the full fair value approach give rise to more decision-useful information for the users of financial statements and, if so, whether the potential for measurement error offsets any increase in the relevance to users of the information. FAR believes that the acquirer should not measure and recognise the non-controlling interests’ share of goodwill.

FAR proposes that the Board adopts a converged model based on the current IFRS 3, with certain improvements to address existing practice issues associated with its application. FAR believes this approach will meet the key objectives of the Board, including improving financial reporting for business combinations and achieving international convergence. In our opinion, the current version of IFRS 3 should be revised with limited modifications and additions, as developed in the stated questions with our comments below.

Yours sincerely

Jan Buisman
Chairman Accounting Practices Committee
APPENDIX 1: IFRS 3

COMMENTS ON THE QUESTIONS AS STATED

Question 1: Objective, definition and scope

Are the objectives and the definitions 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?

Response:

The Board’s intention seems to be that all business combinations, including true mergers, shall be accounted for by applying the acquisition method of accounting. However, FAR sees an inconsistency between this view and the proposed new definition of a business combination with the text “acquirer obtains control”. In our view, in a true merger there is no acquirer. A true merger meets the definition of a business combination under the current IFRS 3 with “bringing together”, but it appears not to meet the proposed new definition. If true mergers are to be scoped in, a revision of the wording is necessary.

FAR is not convinced that applying one single method of accounting to all business combinations will necessarily enhance the relevance and reliability of the financial statements. FAR would have welcomed if the Board had addressed thoroughly the new basis of accounting (the fresh start method) as an alternative for true mergers as this method may more faithfully represent business combinations in which none of the combining entities obtains control of the other. FAR further believes that the Board should have investigated the new basis of accounting as an alternative for business combinations involving only mutual entities or achieved by contract alone.

Since the Board has not yet investigated the new basis of accounting, FAR believes that the proposed scope exceptions are appropriate including the exceptions for the formations of joint ventures and combinations involving entities under common control.

Common control transactions are rather frequent and represent an area where practical issues frequently arise. FAR therefore regrets that the Board did not consider common control issues in the exposure draft. FAR notes, however, that contrary to US GAAP, there is no procedural guidance provided for those transactions under IFRS. FAR urges the IASB to add common control transactions to its list of potential future projects.

FAR agrees with the Board’s conclusion that business combinations generally are exchange transactions in which knowledgeable, unrelated willing parties are presumed to exchange equal values. The amount paid by the acquirer is the best evidence of fair value for the portion of the business acquired. Accordingly, FAR agrees with the Board’s conclusion that the acquisition of 100 percent of an entity should be recognised based on the amount that the acquirer has paid. However, FAR disagrees with the application of the full fair value approach as described in the exposure draft when the acquirer obtains less than 100 percent ownership (partial acquisition). FAR also disagrees with the proposed accounting treatment in
step acquisitions when the acquirer owned an investment in the acquiree before the business combination; see FARs response to Question 10 below.

FAR disagrees with the guidance in the exposure draft that an acquirer should measure and recognise an acquiree at its full fair value and the related guidance on accounting for the non-controlling interests that is based on the economic entity approach. FAR believes that the full economic entity approach is not appropriate because the non-controlling shareholders did not participate in the transaction. FAR is not convinced that the full fair value approach give rise to more decision-useful information for the users of financial statements and, if so, whether the potential for measurement error offsets any increase in the relevance to users of the information. As a consequence, FAR believes that the acquirer should not measure and recognise the non-controlling interests’ share of goodwill.

Question 2: Definition of a business

Is 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?

Response:

FAR accepts the broadened definition of a business. However, in order to further clarify this definition, FAR believes that the standard would improve from some examples.

FAR supports the Board’s conclusion in BC41 that conceptually, acquisitions of all groups of assets should be accounted for in the same way. However, FAR notes that there are some proposed amendments that will lead to significant accounting differences dependent upon whether an acquisition is accounted for as a business combination or as an asset acquisition (for instance acquisition related costs and contingent consideration). The distinction between an asset acquisition and a business acquisition is often very thin, and to some extent more of form than substance. As a consequence, FAR would recommend the Board to include further guidance and various examples with respect to this distinction, and FAR would especially appreciate an example on how to analyse and conclude regarding acquisitions of single asset investment property companies (i.e. the legal company includes only one item of property).

Additionally, in order to further clarify FAR recommends that the Boards reconsider the current presumption in IFRS 3 that if goodwill exists, then the set of assets and activities constitutes a business. FAR agrees with the observations in the basis for conclusions that this presumption results in circular logic and that it is not especially useful guidance. That is, goodwill is the result of a business combination, not an indicator.

FAR notices that it is enough that “an integrated set of activities and assets is capable of being conducted and managed for the purpose of …..”, thus the set of activities does not actually need to be conducted and managed. FAR would appreciate an example of such a set of activities and assets that are only capable of being conducted and managed.
Finally, FAR does not understand why providing return to investors and providing dividends is separated (Amendments to IFRS 3 paragraph 3 (d)). Consequently, FAR believes that there is a need for further guidance and explanation of this separation.

**Question 3: Measuring the fair value of the acquiree**

_in a business combination in which the acquirer holds less than 100 percent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognize 100 percent of the acquisition-date fair value of the acquiree, including 100 percent 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?_

**Response:**

FAR does not find the full goodwill approach appropriate. FAR proposes, instead, that the Board adopts a converged model based on the current IFRS 3, with certain improvements to address existing practice issues associated with its application. FAR believes this approach will meet the key objectives of the Board, including improving financial reporting for business combinations and achieving international convergence.

FAR supports the dissenting board members' view as expressed in AV2 – AV7, and as a result FAR argues that the standard should be based on the parent-only/cost based approach of the current IFRS 3. In our view, the proposed amendments with respect to the full goodwill method are not fully addressed in the exposure draft. FAR is not convinced that the arguments provided by the Board on the benefits of the full goodwill method meet the additional costs of applying this method. FAR is not convinced either that the assumed users find the information based on this method more useful.

FAR agrees that an acquirer should recognise 100 percent of the identifiable assets acquired and identifiable liabilities assumed upon a business combination at fair value. However, FAR does not believe that goodwill shall be allocated to the non-controlling interest, but should instead be measured and recognised as the residual of the cost to acquire the controlling interest less the acquirer’s share of the fair values of the identifiable assets acquired and liabilities assumed.

FAR understands the Board’s view that goodwill meets the definition of an asset and that therefore the parent company should account for all assets including goodwill under its control, not just the parent’s proportionate share (BC 137-138). Under this approach, goodwill is considered and accounted for as any other asset that can be identified separately. However, in FARs view goodwill is different from other assets because it is a component of the value of the business as a whole rather than having a separate existence (see also AV3). As a consequence, FAR does not believe that it is appropriate to treat and account for goodwill as other assets. It is also FARs view that users of financial statements do not consider goodwill comparable to other types of assets.
FAR also believes that it is very unfortunate that the FASB’s Fair Value Measurement project is not finalised by the time of issuing this exposure draft. The outcome of this project may change by the time the amended standard is issued and thus result in changes to the proposed amendments in the exposure draft.

**Question 4: Measuring the fair value of the acquiree**

*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?*

**Response:**

As responded above, FAR does not believe that the full goodwill method should be adopted. If it were, FAR believes that the exposure draft does not provide sufficient guidance on how to gross up fair value of the interest acquired to the fair value of the acquiree as a whole where the acquirer obtains less than 100% ownership in the acquiree.

In FARs experience, the fair value of an acquiree is not always easily derived from quoted market prices. In practise, valuation techniques are applied, that are dependent on a number of entity inputs, which tend to be subjective for the acquirer, especially on level 3. This affects the reliability of the calculation and the uncertainty of the measurement.

The fair value of the acquiree must be estimated based on information other than the price paid by the acquirer. If there is no presumption that the exchange price is the best evidence of full fair value of the acquiree in a partial acquisition, an acquirer should use valuation techniques. The Board should consider the costs of using these other valuation techniques in relation to the perceived benefits when performing its cost/benefit analysis of requiring the economic entity and full fair value approaches.

Further guidance is required on what other information to consider and how to measure fair value. Specific guidance should be provided on the identification and measurement of control premiums (including indicators for when they do or do not exist) and buyer-specific synergies that arise in business combinations. FAR finds that such additional guidance is necessary to improve comparability of financial information and essential for preparers when measuring control premiums and buyer specific synergies.

Guidance is also needed to implement concepts such as objectively determinable as it relates to Level 2 estimates (e.g., paragraph E20) and how to evaluate undue cost and effort for measurement techniques related to Level 3 estimates (e.g., paragraph E22). The accounting guidance must be operational, minimize diversity in valuation practice and the resulting information should be auditable.

**Question 5: Measuring the fair value of the acquiree**

*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?

Response:

FAR generally agrees with the Board’s conclusion that the acquisition-date fair value of the consideration transferred is the best evidence of the fair value interest acquired in a business combination.

However, FAR believes that there are transactions where the acquisition-date fair value of the consideration transferred is not the best evidence of the fair value of the acquiree, for example when the acquirer pays an entity-specific premium. Therefore in paragraph 20, FAR believes that it should only be a rebuttable presumption that the fair value of the consideration transferred is the best evidence of the fair value of the interest acquired. FAR believes that the word “presumed” should be replaced by a “rebuttable presumption” to better describe the intention of the Board.

FAR agrees that the fair value of contingent consideration based on security prices can be reliably measured on the acquisition date and should be recognised at fair value on that date.

However, FAR believes that contingent consideration based on the acquiree’s earnings levels or other performance measures (performance-based contingent consideration) should be included in the acquisition price on the date of acquisition only if such consideration is probable at the acquisition date and can be measured reliably.

FAR believes that performance-based contingent consideration is generally not reliably measurable at the acquisition date. Contingent consideration is often agreed on when the buyer and seller are unable to reach an agreement as to the fair value of the entity. Instead, FAR suggests that performance-based contingent consideration to be recognised as an adjustment to acquisition accounting when the amounts are probable of being paid.

FAR suggests that contingent considerations should be treated according to the requirements of the current IFRS 3, but preferably with further guidance on the different accounting treatments of contingent versus deferred consideration.

**Question 6: Measuring the fair value of the acquiree**

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

Response:

FAR believes that performance-based contingent consideration and security price-based contingent consideration should be accounted for differently at the acquisition date and, as a result, the accounting after the acquisition date also should be different.

For security price-based contingent consideration, FAR agrees that subsequent changes in the fair value that do not qualify as measurement period adjustments should be accounted for in the following way: equity-classified contingent consideration should not be remeasured and liability-classified contingent consideration should be accounted for under applicable IFRS.
FAR believes that the resolution of a performance contingency confirms the value that existed at the acquisition date and therefore should be recognised as an adjustment to acquisition accounting. In FAR’s view, there is a risk that the subjectivity involved in measuring fair value of contingent considerations, in practice may result in income statement manipulation, i.e. an entity may be tempted to increase the use of contingent considerations and as a consequence benefit from higher equity numbers or gains from reversal of initially overestimated amounts for contingent consideration.

**Question 7: Measuring the fair value of the acquiree**

*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?*

**Response:**

FAR disagrees.

In FAR’s view, the costs that the acquirer incurs in connection with a business combination should be considered as part of the consideration transferred. This accounting treatment of acquisitions costs is in line with FAR’s response to question 3 above, i.e. FAR proposes a parent-only/cost based approach rather than a full goodwill approach.

FAR also believes that recognising acquisition costs related to a business combination as an expense is not consistent with similar acquisitions of other types of assets. Including acquisition costs as part of the consideration transferred is consequently consistent with other existing standards.

Finally, FAR agrees with the dissenting board members’ view as expressed in AV19 regarding that it may be argued that, at least from a user perspective, it does not matter whether or not the consideration transferred relates to acquisition costs or to the acquisition itself. Consequently, FAR finds it contradictory to account for the acquisition costs separately.

**Question 8: Measuring and recognising the assets acquired and the liabilities assumed**

*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?*

**Response:**

FAR generally agrees with the initial recognition and measurement changes. However, FAR notes that in contrast to paragraph 37 (a) to (c) of the current version of IFRS 3, the draft revised IFRS 3 in paragraphs 28 to 31 does not include the ‘reliability of measurement recognition criterion’. In BC98 of the exposure draft the Board explains that it decided to drop
the notion because an equivalent statement is already part of the recognition criteria in the Framework (paragraph 86 – 88). In FAR view, the ‘reliability of measurement recognition criterion’ should be retained in the revised IFRS 3 as it provides important clarity and since the Framework cannot supersede a standard. If the reliability criterion is removed due to convergence purposes, but the criterion is still considered to be valid due to the Framework, in substance, no material convergence has been accomplished.

Additionally, FAR is to some extent concerned that, in practice, it may be difficult to reliably measure contingent assets acquired and liabilities assumed at the date of transaction. FAR believes that the reliability criterion should not be removed as responded to question 4 above. But according to the exposure draft, contingencies should be measured at fair value regardless of the ability to reliably measure them. If such provisions would be implemented, FAR believes the final standard would benefit from further guidance and the use of examples on how to determine the fair value of these items.

**Question 9: Measuring and recognising the assets acquired and the liabilities assumed**

*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?*

**Response:**

Yes, FAR believes that they are appropriate.

**Question 10: Additional guidance for applying the acquisition method to particular types of business combinations**

*Is it appropriate for the acquirer to recognise in income 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?*

**Response:**

As responded in question 1 and 3 above FAR does not support the full goodwill approach. Nevertheless, FAR agrees that obtaining control is such an event that requires remeasurement of the acquirer’s existing investment in the acquiree. However, FAR believes that the requirement shall be limited to the identifiable net assets. FAR also agrees with the Board’s reasoning in BC 151, “… a change from holding a non-controlling investment in an entity to obtaining control of that entity is a significant change in the nature of the economic circumstances surrounding the investment”. FAR also agrees that such a significant change (e.g. obtaining control) justifies the need for remeasurement of existing investment in the acquiree, recognition of identifiable assets and liabilities assumed and classification of the investment. However, as responded in question 1 and 3 above FAR does not support recognition of the fair value as a whole.
Further, FAR disagrees with the Board’s conclusion that unrealised gains on remeasurement should be recognised in the profit and loss statement. FAR does not believe that it is appropriate to recognise a gain or loss in income simply as the consequence of acquiring additional interest in the acquiree. Therefore, FAR agrees with the alternative view as presented in AV11-AV13; “The acquirer has obtained rights to direct the use of the underlying net assets of acquiree as a result of the purchase of an additional investment that achieves a controlling interest. It has not disposed of the original investment, and it is therefore inappropriate to reclassify past gains or losses on that investment to profit or loss, as would be done if they were realised by disposal.” As a consequence, FAR argues that the possible remeasurement of an existing investment should be recognised in equity rather than in the profit and loss statement. This view is consistent with the current version of IFRS 3.

FAR also notes that there currently is no consistent principle under IFRS for recognition of unrealised gains, for example some IFRS (and standards within US GAAP) requires recognition in income, some directly in equity and in some cases gains recognised in equity would be recycled on disposal/derecognition. Therefore it is FARs view that, until the issues related to remeasurement have been addressed, gains when control is obtained should be recognised in equity on the date of the acquisition consistent with the approach in current IFRS 3. A “loss” on remeasurement may, in FARS view, act as an indicator for impairment and if the impairment test does not trigger an impairment charge in income, FAR believes, in consistence with what stated above, the loss should be recognised in equity.

Also, the loss of control of a subsidiary is a significant economic event, but consequently FAR does not believe that this event justifies the recognition of revaluation gains and losses on any remaining interests of the acquiree. In FARS opinion, when control of a subsidiary is lost any remaining investment initially should be measured at the proportionate retained interest of the net carrying amount of the former subsidiary. Subsequently this interest should be accounted for in accordance with appropriate existing IFRS. This method would be consistent with the requirement in the current IAS 27 p. 32 saying that “The carrying amount of the investment at the date that the entity ceases to be a subsidiary shall be regarded as the cost on initial measurement of a financial asset in accordance with IAS 39.”

**Question 11: Additional guidance for applying the acquisition method to particular types of business combinations**

*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?*

**Response:**

FAR agrees.
Question 12: Additional guidance for applying the acquisition method to particular types of business combinations

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?

Response:

FAR believes that overpayment should be defined, at least in the basis for conclusion. FAR believes there are rare cases where an overpayment exists. This may be the case if the consideration is paid through issue of equity instruments by the acquirer and there is a significant increase in the market value of the shares between the agreement date and the transaction date. But in a case when a market leader acquires a competitor just to close it down to reduce competition, in FARS view, this is not an overpayment, but rather a price including a control-premium for synergies for the acquirer.

FAR agrees with the Board that there are circumstances in which the amount of overpayments may not be reliably measured. However, this conclusion by the Board seems to contradict the Board’s general view on the use of the fair value approach which presumes an ability to reliably measure the fair value of the acquired entity. If the fair value of the acquired entity and the consideration paid can both be reliably measured, the amount of the overpayment can be easily computed as the difference between them. Therefore the fact that the Board has concluded that overpayments cannot be reliably measured raises questions about the Board’s conclusion that the fair value of the acquired entity can be reliably measured in all business combinations except those when there is an overpayment.

FAR agrees with the Board, that overpayments should be addressed through subsequent impairment testing when evidence of a potential overpayment first arises. This would also be applicable for the considerations paid through issue of equity instruments mentioned above.

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?

Response:

FAR agrees with the proposed amendments.

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?
Response:

Yes, FAR believes the guidance is sufficient.

**Question 15: Disclosures**

*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?*

Response:

FAR generally agrees with the disclosure objectives, but in FAR's view the minimum disclosure requirements are too extensive and may not meet the cost benefit criterion.

FAR supports the Board's proposed removal of the disclosures currently required by IFRS 3 for the carrying amounts for each class of the acquiree's assets and liabilities determined in accordance with IFRSs immediately before the combination. FAR believes that this disclosure may be very costly if the acquiree is not an IFRS preparer and in FAR's opinion the information is not useful. If the Board issues a revised standard that is consistent with FAR's proposed parent company approach, the Board should re-evaluate the need for certain disclosures including paragraphs 72e., 72 f.(6), and 72 j.

**Question 16: The IASB's and FASB's convergence decisions**

*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?

Response:

Referring to FAR's response to question 11 above, in FAR's view the "reliability of measurement recognition criterion" should be retained in the revised IFRS 3 as it provides important clarity and since the Framework cannot supersede a standard. If the reliability criterion is removed due to convergence purposes, but the criterion is still considered to be valid due to the Framework, no material convergence has in substance been accomplished.
FAR does not believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognised separately from goodwill. FAR believes there are intangible assets, e.g. brands, patents or licences for one product, which cannot be sold, transferred, licensed, rented, or exchanged individually and do not generate separate cash flows.

In FARs experience, active markets seldom exist, as confirmed by the Board in paragraph 78 of IAS 38. Therefore it is difficult to determine the fair value without using valuation techniques.

**Question 17: The IASB’s and FASB’s convergence decisions**

*Do you agree that any changes in 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?*

**Response:**

Yes, FAR agrees that such changes should not be considered part of the acquisition and thus be accounted for separately from acquisition accounting.

**Question 18: The IASB’s and FASB’s convergence decisions**

*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?*

**Response:**

FAR would prefer if the Boards were able to resolve and eliminate the remaining differences. In FARs view, it would be beneficial to all parties affected by either IFRS, U.S. GAAP or both that full convergence were reached in this project rather than in a another project, resulting in the need to issue a new revised standard.

**Question 19: Style of the Exposure Draft**

*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?*

**Response:**

Yes, FAR finds that acceptable.
APPENDIX 2: IAS 27

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?

Response:

FAR disagrees. FAR favours the parent company approach. For a motivation of FARs position we refer to FARs comment letter (appendix 2) to ED of Proposed Amendments to IFRS 3 Business Combinations.

Question 2

Paragraph 30D proposes that on loss of control of a subsidiary any non-controlling equity investment remaining in the former subsidiary should be remeasured to its fair value in the consolidated financial statements at the date control is lost. Paragraph 30C proposes that the gain or loss on such remeasurement be included in the determination of the gain or loss arising on loss of control (see paragraph BC7 of the Basis for Conclusions).

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?

Response:

FAR disagrees. If the Board nonetheless proceeds with the proposals, then FAR proposes that the resulting gain or loss should be recognised directly in equity.

Question 3

As explained in Question 1, the Exposure Draft proposes that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control should be treated as transactions with equity holders in their capacity as equity holders. Therefore, no gain or loss would be recognised in profit or loss. However, a decrease in the parent's ownership interest resulting in the loss of control of a subsidiary would result in any gain or loss being recognised in profit or loss for the period. The Board is aware that differences in
accounting that depend on whether a change in control occurs could create opportunities for entities to structure transactions to achieve a particular accounting result. To reduce this risk, the Exposure Draft proposes that if one or more of the indicators in paragraph 30F are present, it is presumed that two or more disposal transactions or arrangements that result in a loss of control should be accounted for as a single transaction or arrangement. This presumption can be overcome if the entity can demonstrate clearly that such accounting would be inappropriate (see paragraphs BC9-BC13 of the Basis for Conclusions).

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?

Response:

FAR agrees that multiple elements arrangements should always be accounted for in accordance with the substance of the transaction.

Question 4

Paragraph 35 proposes that losses applicable to the non-controlling interest in a subsidiary should be allocated to the non-controlling interest even if such losses exceed the non-controlling interest in the subsidiary's equity. Non-controlling interests are part of the equity of the group and, therefore, participate proportionally in the risks and rewards of investment in the subsidiary.

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?

Response:

FAR disagrees. FAR favours the parent company approach. Normally the asset derived from losses allocated to the non-controlling interest does not meet the definition of an asset.

Question 5

The transitional provisions in the Exposure Draft propose that all of its requirements should apply retrospectively, except in limited circumstances in which the Board believes that retrospective application is likely to be impracticable.

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?
Response:

If the Board proceeds with the proposals, then FAR proposes that the transitional provisions as described in paragraph 43B shall include all proposed amendments. In other words all requirements as described in paragraphs 30 A-F and 35 shall be applied prospectively.