Dear Mr. Teixeira


We welcome the opportunity to comment on the above mentioned Exposure Drafts, being the result of the second phase of the Business Combinations project.

In our view, the Exposure Drafts presented by the Board raise serious concerns regarding the objectives of the Board in conducting the second phase of the Business Combinations project (BC II project), on the proposed accounting concepts and on the process held by the IASB to prepare and expose conceptual changes.

This letter aims at presenting a summary of our main concerns and comments. Our full answers to the detailed questions raised in the Exposure Drafts are presented in the attached appendix.

Comments on the objectives of the BC II project

Our first concern relates to the objectives of the second phase of the Business Combinations project. After the recent publication of IFRS 3, we had understood that the objective of this phase was to add guidance on applying the acquisition method and to improve the Standard by dealing with important topics not covered in Phase I (Combinations involving companies under common control, Creation of joint ventures, Combinations involving mutual entities, Changes in non-controlling interests).
Not only do the Exposure Drafts not deal with all these topics, some of which we consider urgent; they also change significantly a recent standard which European companies have just begun to implement, without any demonstration by the Board that these changes are either necessary or required by users.

Comments on certain proposed accounting concepts

We feel that certain of the changes in accounting concepts being proposed in the Exposure Drafts do not meet the objective of enhancing the quality of financial information. At no time has the Board demonstrated that these concepts constitute an improvement to the current IFRS 3 or IAS 37, and the dissenting opinions expressed in the Alternative Views section of the exposure draft confirm our views.

In particular, we dispute the relevance of the following aspects of the Exposure Drafts:

- The measurement of the acquired business at its fair value rather than its cost;
- the economic entity approach to consolidated financial statements in comparison to the approach currently set out in IFRS 3;
- the transitional provisions of IFRS 3 and IAS 27; and
- the deletion of probability as a recognition criterion for liabilities under IAS 37.

Measurement of an acquired business at its fair value rather than its cost

We disagree that an acquired business should be measured and recognised at its fair value rather than at its cost for the following main reasons, which summarise our detailed comments presented in the attached Appendix to this letter:

- The proposed approach would introduce inconsistency within IFRS by creating significant differences in measuring and recognising business acquisitions and acquisitions of groups of assets, whereas the border between both situations is somewhat difficult to determine.

- We anticipate significant practical difficulties in the application of this concept, as far as:

  (i) The fair value of an acquired business is very subjective and cannot be determined directly from the price paid by the buyer, as this price may reflect an estimate of the synergies that could be created by the combination in the rest of the acquirer’s group,

  (ii) The fair value will be very difficult to determine if control is obtained where the acquisition is significantly less than 100 %, which is a frequent situation in continental Europe.

The Board has itself identified these practical difficulties, as shown by the exceptions to the principle of measurement and recognition at fair value introduced for the treatment of overpayments and underpayments.
Therefore, we consider that the proposed approach is going to create additional costs for companies to get financial information which will be neither more relevant nor more reliable.

We thus consider that the acquirer’s interest in the acquiree should be measured and recognised at cost, defined as the fair value of the consideration transferred by the acquirer in exchange for that interest, as measured at the agreement date.

**Economic entity approach to consolidated financial statements versus the approach currently in IFRS 3**

The current version of IFRS 3 is based on a mixed-model, being a mix between a “parent company” approach giving information to certain users of the financial statements, i.e. shareholders and future shareholders of the mother company of a Group, and an “economic entity” approach which evidences the global activity controlled by the Group, and 100% of related assets and liabilities in the consolidated accounts.

IFRS 3 as drafted gives priority to the “economic entity” approach to the detriment of the “parent entity” approach.

We consider that both approaches are of interest, and regret that the choice of the “economic entity” approach leads to the disappearance of information useful to the shareholders of the parent company. In the economic environment prevailing in continental Europe, where a lot of groups are structured in such a way that there are significant minority shareholders, who may be given specific rights under national legislations, we think that the deletion of such information is inappropriate.

In addition, we consider that one of the consequences of the “economic entity” approach, namely the recognition of goodwill held by non-controlling interests, will involve significant difficulties of application - concerning principally the split of the goodwill between the controlling entity and the minority shareholders - and leads in certain cases to inappropriate accounting entries. For instance, the application of the proposed method would lead to a decrease in shareholders' equity of the Group when it buys remaining non-controlling interests, where fair value has increased compared to the fair value at the date control was obtained. Thus an increase in the actual value of the Group would finally have been translated into an apparent diminution.

**Transitional provisions of IFRS 3 and IAS 27**

The transitional provisions as drafted are based on a prospective application of IFRS 3 to future business combinations and a retrospective application of IAS 27 with the main exception of the accounting for increases in the parent’s controlling ownership.

We agree that there should be exceptions to the general principle of retrospective application for changes in accounting principles, either for conceptual or more simply for practical reasons.
Nevertheless, prospective application must not lead to irrelevant accounting effects. In particular, the inadequate accounting impacts - described above - arising from the parent entity buying remaining non-controlling interests would be amplified by prospective accounting which would lead to maintaining existing goodwill even if they actually represent only the parent's company share.

*Deletion of probability as a recognition criterion for liabilities under IAS 37*

We disagree with the deletion of probability as a recognition criterion for liabilities, as proposed in IAS 37 ED, for the following main reasons:

- The proposed approach seems to us to be in contradiction with the definition of a liability given by the Framework: "a present obligation [...] arising from past events, the settlement of which is expected to result in an outflow [...] of resources [...]" which, in our opinion, implicitly infers the probability of an outflow of resources to occur is to be taken account of.

- The proposed approach would lead to the recognition of an important number of liabilities that are not likely to result in an outflow of resources for the entity. Thus the financial information produced would be both useless and irrelevant.

- The way a liability would be measured under IAS 37 as drafted, taking into account the probability as a measurement criterion rather than a recognition one, would lend to the recognition of liabilities measured at an amount which, by definition, would never represent the exact outflow of resources to settle the obligation. This situation would result in the first objective of financial statements described in the Framework being missed: in that it would not allow the users of the accounts to evaluate the ability of the entity to generate future cash flows.

All these elements would lead to the recognition of liabilities the measurement of which would be subjective, not verifiable and at a very high cost. At no time has the Board demonstrated that profits derived from this new conceptual approach would be worth the cost compared to IAS 37 as it currently is.

*Comments on the discussion process*

Our major concerns, as described above, come from major conceptual changes, often in contradiction with the Framework.

We consider that these conceptual changes should have led to discussion papers being issued which would have given constituents the opportunity of an in depth analysis of the proposed concepts including an estimate of their impact on other Standards.
Indeed, we consider that it is not the role of Exposure Drafts to introduce major conceptual changes that would possibly lead to significant inconsistencies with other applicable Standards and Interpretations. The way the Board has proposed changes in the Exposure Drafts in relation with the BC II Project is pre-empting the possible conclusions of the conceptual debate yet to take place concerning the Framework.

In conclusion, we would like the Board to postpone the application of the proposals involving the major conceptual changes identified above, in order that a global discussion and a proper analysis can take place. We thus wish the Board to restore its original objectives to the BC II Project, namely addressing guidance for applying the acquisition method and improving IFRS 3 by dealing with topics not covered in Phase I of the project.

In this context, we urge the Board to define recognition methods for business combinations involving companies under common control and for the creation of joint ventures.

We would be pleased to discuss our comments with you and are at your disposal should you require further clarification or additional information.

Yours sincerely

Patrick de Cambourg

Chairman of the Group Executive Board
Question 1: Objective, definition and scope

The proposed objective of the Exposure Draft is:

... that all business combinations be accounted for by applying the acquisition method. A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses (the acquiree). In accordance with the acquisition method, the acquirer measures and recognises the acquiree, as a whole, and the assets acquired and liabilities assumed at their fair values as of the acquisition date.

The objective provides the basic elements of the acquisition method of accounting for a business combination (formerly called the purchase method) by describing:

(a) what is to be measured and recognised. An acquiring entity would measure and recognise the acquired business at its fair value, regardless of the percentage of the equity interests of the acquiree it holds at the acquisition date. That objective also provides the foundation for determining whether specific assets acquired or liabilities assumed are part of an acquiree and would be accounted for as part of the business combination.

(b) when to measure and recognise the acquiree. Recognition and measurement of a business combination would be as of the acquisition date, which is the date the acquirer obtains control of the acquiree.

(c) the measurement attribute as fair value, rather than as cost accumulation and allocation. The acquiree and the assets acquired and liabilities assumed would be measured at fair value as of the acquisition date, with limited exceptions. Consequently, the consideration transferred in exchange for the acquiree, including contingent consideration, would also be measured at fair value as of the acquisition date.

The objective and definition of a business combination would apply to all business combinations in the scope of the proposed IFRS, including business combinations:

(a) involving only mutual entities

(b) achieved by contract alone

(c) achieved in stages (commonly called step acquisitions)

(d) in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date.

(See paragraphs 52-58 and paragraphs BC42-BC46 of the Basis for Conclusions.)

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?
Mazars comments

We understand that the Board intended to obtain a standard applicable to all business combinations, and consequently widened the scope compared to the current IFRS 3. We support the idea that IFRSs should apply to all business combinations.

However, we disagree that the new definition of a business combination, as proposed by the IASB, answers this objective, as all business combinations must be accounted for by applying the acquisition method. The Exposure Draft defines a business combination as a transaction in which an acquirer obtains control of one or more businesses. We therefore think that the new definition excludes certain business combinations where no acquirer can be identified. We strongly believe that such situations are not purely theoretical, for example:

- true mergers,
- combinations involving mutual entities,
- dual listed entities.

We also noticed that paragraph BC 32 of the Basis for Conclusions clearly states that the new definition covers all the business combinations covered by the existing provisions of IFRS 3. This paragraph seems to contradict the definition given in the Exposure Draft, and we consider that the Board's real intent should be portrayed in the Exposure Draft rather than in the basis for conclusions.

We disagree that the application of the acquisition method would reflect the economic reality of some types of business combinations, as we believe that there are circumstances when the identification of an acquirer may be impossible. It may be the case for true mergers, business combinations involving mutual entities and dual-listed entities, or for forms of business combinations explicitly excluded from the scope of the Exposure Draft (formation of joint ventures and combinations involving entities under common control). We thus encourage the Board to continue its work to find methods which could apply to these specific cases and remove these exclusions from the scope, as we are convinced there is a strong case for covering these methods, especially regarding common control and joint ventures.

Furthermore, as indicated in our covering letter, we strongly disagree that the acquiree should be measured and recognised at its fair value regardless of the percentage held by the acquirer at the date of acquisition. We develop this further in our answers to the following questions. We also do not think that this principle is appropriate for the main following reasons:

- the accounting for a business would, as IFRS 3 is now drafted, be different to the accounting for the acquisition of a group of assets (which would be accounted for at cost). As the limit between both types of acquisitions might be difficult to determine, we consider it inconsistent to have different ways of accounting for similar operations;
- the determination of fair value might lead to practical difficulties, due to the fact that the value of a business is, by definition, subjective as the acquirer may determine its price by also taking into account, totally or partially, the synergies created by the combination for the rest of the group.

Therefore we believe that business combinations should remain accounted for on the basis of their cost to the acquirer. We do not see any benefits arising from the proposed change.
Question 2: Definition of a business

The Exposure Draft proposes to define a business as follows:

A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing either:

1. a return to investors, or
2. dividends, lower costs, or other economic benefits directly and proportionately to owners, members, or participants. [paragraph 3(d)]

Paragraphs A2-A7 of Appendix A provide additional guidance for applying this definition. The proposed IFRS would amend the definition of a business in IFRS 3. (See paragraphs BC34-BC41.)

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?

Mazars comments

The new definition that has been proposed broadens the definition of a business, by considering as such an « integrated set of activities and assets that is capable of being conducted ». We agree with the objective of the change which permits the inclusion in the field of business combinations acquisitions of start-ups which have not reached the production stage yet.

Nevertheless, the extension of the definition is likely to reduce the limit, already controversial, within the framework of current IFRS 3, between a business and a group of assets, as far as a good many of them are « capable of being conducted » as a business.

This reduction would be acceptable only if, as exposed by the Board in paragraph BC 42 of the Basis for Conclusions, acquisitions of assets and businesses were booked in an identical way. As the standards are currently written, there already exist differences, mainly due to IAS 12. We understand that these differences are in the course of being resolved in the context of the short-term convergence project. The amended IFRS 3, as it is currently drafted, would reintroduce a major difference which would lead for similar operations being accounted for in different ways, since groups of assets are booked at cost, whereas business combinations would be at fair value.

We therefore consider that all business combinations should be recognised and measured at cost, as written in the current IFRS 3.

If however, the Board decided to maintain, in the final version of the Standard, the measurement of business combinations at fair value, we consider that it is necessary for the Board to clarify the borderline between a group of assets and a business.
Questions 3-7: Measuring the fair value of the acquiree

Question 3

The Exposure Draft proposes that in a business combination that is an exchange of equal values, the acquirer should measure and recognise 100 per cent of the fair value of the acquiree as of the acquisition date. This applies even in business combinations in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at that date. In those business combinations, the acquirer would measure and recognise the non-controlling interest as the sum of the non-controlling interest’s proportional interest in the acquisition-date values of the identifiable assets acquired and liabilities assumed plus the goodwill attributable to the non-controlling interest. (See paragraphs 19, 58 and BC52-BC54.)

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?

Mazars comments

We understand the conceptual approach of the Board which considers that goodwill is an asset of the acquiree and therefore should be recognised in the same way as the other assets and liabilities.

Nevertheless, we consider that this conceptual approach is difficult to implement and that it does not give more useful and more reliable financial information than that obtained in application of the current IFRS 3. We therefore share the alternative view detailed in ED.AV2-AV7 and strongly oppose to the so-called full goodwill approach.

We consider that since goodwill is not an identifiable intangible asset, its fair value is subjective. Indeed, this measure is based on the fair value measurement of the acquiree which in turn would be unreliable as, for example:

- when the acquired interests are significantly lower than 100 %, the paid price can not be a reliable base for the determination of the fair value of the acquiree, considering the premium paid by the controlling entity;
- in the case of a takeover of 80 % of an entity, the remaining 20 % may belong to shareholders who considered the price as too low. In such a case, the fair value of the residual interests could possibly turn out to be superior to the price paid;
- goodwill paid by the acquirer may include items which do not correspond to assets of the acquiree, such as the valuation of some of the synergies envisaged because of the business combination. This valuation is difficult to identify and, if extended to 100 % of the acquired entity, would lead to misleading information given to shareholders.

Besides, we also anticipate difficulties in trying to split the goodwill between the Group share and minority interests, because this split would depend on:

- the estimation of the premium paid by the controlling entity;
– the identification of the part of the synergies which the acquired business would benefit from and those which would go to the rest of the Group.

Finally, this arrangement would have disputable consequences on subsequent acquisitions of interests: the acquisition by a Group of the non-controlling interests in an entity which widely developed since it got control would lead mechanically to a decrease in the group’s share in equity as the fair value paid would be greater than the initial fair value determined while:

– the price paid to minority shareholders results from an increase of the value of the business controlled, not recognised in the accounts;

– the deal gives to the Group access to economic advantages which can justify the price paid.

We therefore urge the Board to maintain the current parent perspective in accounting for goodwill, in order to avoid misleading information given to users of the financial statements. We would also appreciate if the Board could consider similar accounting solutions to solve the problem created by puttable minority interests, when accounted for as a liability, under IAS 32-23.

Question 4

The Exposure Draft proposes that a business combination is usually an arm’s length transaction in which knowledgeable, unrelated willing parties are presumed to exchange equal values. In such transactions, the fair value of the consideration transferred by the acquirer on the acquisition date is the best evidence of the fair value of the acquirer’s interest in the acquiree, in the absence of evidence to the contrary. Accordingly, in most business combinations, the fair value of the consideration transferred by the acquirer would be used as the basis for measuring the acquisition-date fair value of the acquirer’s interest in the acquiree. However, in some business combinations, either no consideration is transferred on the acquisition date or the evidence indicates that the consideration transferred is not the best basis for measuring the acquisition-date fair value of the acquirer’s interest in the acquiree. In those business combinations, the acquirer would measure the acquisition-date fair value of its interest in the acquiree and the acquisition-date fair value of the acquiree using other valuation techniques. (See paragraphs 19, 20 and A8-A26, Appendix E and paragraphs BC52-BC89.)

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?

Mazars comments

As expressed in our covering letter and in our answers to questions 1 and 3 above, we consider that, in business combinations, the acquiree should be measured at cost and not at fair value. We therefore do not consider this guidance useful.

Nevertheless, if the Board maintained its decision to account for any business acquired at fair value, the guidance provided by paragraphs A 8– A 26 and Appendix E seems to us insufficient to handle certain situations. We consider that it would be useful to develop examples of application in the following cases:

– acquisition of a non-listed company;

– identification of a control premium rendering the fair value of majority interests higher than that of non-controlling interests,

– cases when the fair value of non-controlling interests is higher than that of the controlling interests.
Besides, we note that Appendix E is subordinated to the completion, by the FASB, of its work on how to determine fair value, and is therefore subject to any changes coming from the FASB in the context of the convergence project. We think that this text will therefore need re-exposure, once the FASB has published its final draft.

**Question 5**

The Exposure Draft proposes a presumption that the best evidence of the fair value of the acquirer's interest in the acquiree would be the fair values of all items of consideration transferred by the acquirer in exchange for that interest measured as of the acquisition date, including:

(a) contingent consideration;
(b) equity interests issued by the acquirer; and
(c) any non-controlling equity investment in the acquiree that the acquirer owned immediately before the acquisition date. (See paragraphs 20-25 and BC55-BC58.)

**Mazars comments**

We agree that fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree is the best measurement basis for the fair value of that interest.

Within the framework of a business combination, we consider that the terms of the exchange are determined when the agreement has been reached. We therefore believe that the fair value of the interest acquired should be based on the fair value of the consideration transferred, measured as of the agreement date rather than acquisition date. Indeed, when the consideration includes equity issued by the acquirer, the market value of such equity may vary significantly for reasons not connected to the business combination.

**Question 6**

The Exposure Draft proposes that after initial recognition, contingent consideration classified as:

(a) equity would not be remeasured.
(b) liabilities would be remeasured with changes in fair value recognised in profit or loss unless those liabilities are in the scope of IAS 39 Financial Instruments: Recognition and Measurement or [draft] IAS 37 Non-financial Liabilities. Those liabilities would be accounted for after the acquisition date in accordance with those IFRSs.

(See paragraphs 26 and BC64-BC89.)

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

Contingent consideration is generally agreed between a buyer and a seller when they do not agree on the fair value of the transferred business. A fair value of such contingent consideration that could be reliable is therefore difficult to determine in some cases.

Nevertheless, it seems to us that the buyer cannot have committed himself to pay contingent consideration without having estimated beforehand the amount which he could be brought to pay. The systematic posting of this estimate gives improved financial information.

Considering the difficulties, we suggest that goodwill could be adjusted as a counterpart of any change in the measurement of contingent consideration during the measurement period. Beyond the measurement period, we agree with the Board’s proposal that remeasurements should be recognised in profit or loss.

Question 7

The Exposure Draft proposes that the costs that the acquirer incurs in connection with a business combination (also called acquisition-related costs) should be excluded from the measurement of the consideration transferred for the acquiree because those costs are not part of the fair value of the acquiree and are not assets. Such costs include finder’s fees; advisory, legal, accounting, valuation and other professional or consulting fees; the cost of issuing debt and equity instruments; and general administrative costs, including the costs of maintaining an internal acquisitions department. The acquirer would account for those costs separately from the business combination accounting. (See paragraphs 27 and BC84-BC89.)

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?

Mazars comments

As already mentioned in our answer to question 1, we strongly believe that the accounting treatment should not differ from the accounting treatment of groups of assets. We do not approve the difference in accounting treatment that arises from the Board’s proposals. We consider that the accounting treatment of acquisition-related costs should be analysed globally, taking into account other existing standards, such as IAS 16, 17, 38, 39 and 41.

Moreover, we also consider that the most appropriate accounting treatment for accounting for the acquiree is cost, being measured from a parent perspective as the fair value of the consideration given by the buyer to acquire the business. Considering the importance of deal costs in business acquisitions, the buyer has normally taken them into account when preparing its offer. We therefore consider that such costs should not be expensed but considered as an integral part of the cost of the business combination.

If the cost method is maintained, we think it would be helpful to have additional guidance, applicable to all of the existing standards listed above, to determine which costs are related to transactions and what their accounting treatment should be at the year end if the transaction they are related to is not completed.
Questions 8 and 9: Measuring and recognising the assets acquired and the liabilities assumed

Question 8

The Exposure Draft proposes that an acquirer measure and recognise as of the acquisition date the fair value of the assets acquired and liabilities assumed as part of the business combination, with limited exceptions. (See paragraphs 28-41 and BC111-BC116.) That requirement would result in the following significant changes to accounting for business combinations:

(a) Receivables (including loans) acquired in a business combination would be measured at fair value. Therefore, the acquirer would not recognise a separate valuation allowance for uncollectible amounts as of the acquisition date.

(b) An identifiable asset or liability (contingency) would be measured and recognised at fair value at the acquisition date even if the amount of the future economic benefits embodied in the asset or required to settle the liability are contingent (or conditional) on the occurrence or non-occurrence of one or more uncertain future events. After initial recognition, such an asset would be accounted for in accordance with IAS 38 Intangible Assets or IAS 39 Financial Instruments: Recognition and Measurement, as appropriate, and such a liability would be accounted for in accordance with [draft] IAS 37 or other IFRSs as appropriate.

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?

Mazars comments

We agree that receivables (including loans) should be measured at fair value with no separate valuation allowance. We are also in favour of posting an intangible asset or liability, as the case may be, relating to operating leases considering their terms compared to market prices at the date of acquisition.

On the other hand, we do not agree with the proposed changes to accounting for contingent assets and liabilities. We consider that no liability should be recognised that does not meet current IAS 37 definitions. Therefore, a liability should be recognised when it is probable (more likely than not) and can be measured reliably. (See our comments on ED IAS 37).

Contingencies, because of their conditional nature, are taken into account through warranties given by the seller to the acquirer. Accounting for contingent assets and liabilities in a business combination would therefore imply additional guidance by the Board on the accounting treatment for such warranties.

Finally, we disagree with the deletion, in the draft revised version of IFRS 3, of the “reliability of measurement” criterion for the recognition of assets and liabilities, because such criterion is part of the Framework. To avoid uncertainty, we consider that the Board should reinstate the “reliability of measurement criterion” in the revised IFRS 3. We agree with the Board that there is an assumption that the fair value can be determined in a reliable way, but we recommend that this assumption be rebuttable in which case recognition criteria are not met.
Mazars comments

The accounting treatment proposed by the Board for step acquisitions in the draft revised IFRS 3 leads to a revaluation, at the date the acquirer obtains control, of non-controlling interests previously held by the acquirer.

We agree with this revaluation, which seems more sensible than the accounting treatment in the current IFRS 3.

Nevertheless, as far as no deal has occurred on the non-controlling interests previously held, we consider that such change in value, being a revaluation on obtaining control, should be accounted for in shareholders' equity and treated in the same way as gains and losses on available for sale assets.

Question 11

The Exposure Draft 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's interest in the acquiree over the fair value of the consideration transferred for that interest would reduce goodwill until the goodwill related to that business combination is reduced to zero, and any remaining excess would be recognised in profit or loss on the acquisition date. (See paragraphs 59-61 and paragraphs BC164-BC177.)

However, the proposed IFRS would not permit the acquirer to recognise a loss at the acquisition date if the acquirer is able to determine that a portion of the consideration transferred represents an overpayment for the acquiree. The boards acknowledge that an acquirer might overpay to acquire a business, but they concluded that it is not possible to measure such an overpayment reliably at the acquisition date. (See paragraph BC178.)

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?

Mazars comments

As we have already made clear, we disagree with accounting for the acquiree at fair value, and recommend that the current IFRS 3 treatment be maintained.

The proposed accounting for business combinations in which the consideration transferred is less than the fair value of the interest acquired and comments developed in paragraphs BC 164 to BC 177 of the Basis for Conclusions illustrate the difficulties created by the fair value model.

Nevertheless, if the Board decided to maintain this model, we support the proposed treatment, as it contributes to restore recognition of the acquiree at cost, being the fair value of the consideration transferred.
Question 9

The Exposure Draft proposes limited exceptions to the fair value measurement principle. Therefore, some assets acquired and liabilities assumed (for example, those related to deferred taxes, assets held for sale, or employee benefits) would continue to be measured and recognised in accordance with other IFRSs rather than at fair value. (See paragraphs 42-51 and BC117-BC150.)

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?

Mazars comments

We are not convinced by some exceptions proposed by the Board to the fair value measurement principle:

- We do not see any reason for not accounting for deferred tax on losses carried forward at their fair value at the acquisition date, that is their gross value discounted to take into account the effect of time;
- It would be advisable to clarify that assets held for sale must be estimated at their fair value less selling costs. The proposed wording, because of its reference to IFRS 5, gives the impression that such assets should be measured at cost.

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

Question 10

The Exposure Draft proposes that, for the purposes of applying the acquisition method, the fair value of the consideration transferred by the acquirer would include the fair value of the acquirer's non-controlling equity investment in the acquiree at acquisition date that the acquirer owned immediately before the acquisition date. Accordingly, in a business combination achieved in stages (step acquisition) the acquirer would remeasure its non-controlling equity investment in the acquiree at fair value as of the acquisition date and recognise any gain or loss in profit or loss. If, before the business combination, the acquirer recognised changes in the value of its non-controlling equity investment directly in equity (for example, the investment was designated as available for sale), the amount that was recognised directly in equity would be reclassified and included in the calculation of any gain or loss as of the acquisition date. (See paragraphs 55, 56 and BC151-BC153.)

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?
Question 12

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?

Mazars comments

Like the Board, we consider that the amount of an overpayment cannot be estimated reliably, but not for the same reasons.

As the Board believes that the fair value of the acquiree and the fair value of the consideration transferred can both be estimated reliably, we do not understand why there should be difficulties in measuring an overpayment.

On our side, we consider that the amount of an overpayment cannot be estimated reliably because we do think that it is possible to estimate the fair value of the acquiree except by reference to the price paid. In such a situation, a reliable measurement of an overpayment is not possible.

Besides, we do not think it useful to define an accounting treatment for overpayments, as far as impairment rules in IAS 36 would apply.

Question 13: Measurement period

The Exposure Draft proposes that an acquirer should recognise adjustments made during the measurement period to the provisional values of the assets acquired and liabilities assumed as if the accounting for the business combination had been completed at the acquisition date. Thus, comparative information for prior periods presented in financial statements would be adjusted, including any change in depreciation, amortisation or other profit or loss effect recognised as a result of completing the initial accounting. (See paragraphs 62-68 and BC161-BC163.)

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?

Mazars comments

We consider that the standardisation of the measurement period for all assets and liabilities of the acquiree as well as for contingent considerations is a real improvement to the current IFRS 3.

We also support the proposal that previously reported financial statements should be adjusted for the effect of measurement period adjustments.
Question 14—Assessing what is part of the exchange for the acquiree

The Exposure Draft proposes that an acquirer assess whether any portion of the transaction price (payments or other arrangements) and any assets acquired or liabilities assumed or incurred are not part of the exchange for the acquiree. Only the consideration transferred by the acquirer and the assets acquired or liabilities assumed or incurred that are part of the exchange for the acquiree would be included in the business combination accounting. (See paragraphs 69, 70, A87-A109 and BC154-BC160.)

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?

Mazars comments

We are unable to clearly identify any cases when such a situation would occur. Thus, we consider the proposed guidance is not clear and we fear that it will lead to endless questions of interpretation.

Question 15—Disclosures

The Exposure Draft proposes broad disclosure objectives that are intended to ensure that users of financial statements are provided with adequate information to enable them to evaluate the nature and financial effects of business combinations. Those objectives are supplemented by specific minimum disclosure requirements. In most instances, the objectives would be met by the minimum disclosure requirements that follow each of the broad objectives.

However, in some circumstances, an acquirer might be required to disclose additional information necessary to meet the disclosure objectives. (See paragraphs 71-81 and BC200-BC203.)

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?

Mazars comments

We agree with the disclosure objectives and the minimum disclosure requirements.

We noticed that differences exist between the Board’s proposal and that of the FASB, in spite of the objective of convergence. We are of opinion that these differences are not such that it is necessary to eliminate them.
Questions 16-18—The IASB’s and the FASB’s convergence decisions

Question 16

The Exposure Draft is the result of the boards’ projects to improve the accounting for business combinations. The first phase of those projects led to the issue of IFRS 3 and FASB Statement No. 141. In 2002, the FASB and the IASB agreed to reconsider jointly their guidance for applying the purchase method of accounting, which the Exposure Draft calls the acquisition method, for business combinations. An objective of the joint effort is to develop a common and comprehensive standard for the accounting for business combinations that could be used for both domestic and cross-border financial reporting. Although the boards reached the same conclusions on the fundamental issues addressed in the Exposure Draft, they reached different conclusions on a few limited matters. Therefore, the IASB’s version and the FASB’s version of the Exposure Draft provide different guidance on those limited matters. A comparison, by paragraph, of the different guidance provided by each board accompanies the draft IFRS. Most of the differences arise because each board decided to provide business combinations guidance that is consistent with its other standards. Even though these differences are candidates for future convergence projects, the boards do not plan to eliminate those differences before final standards on business combinations are issued.

The joint Exposure Draft proposes to resolve a difference between IFRS 3 and SFAS 141 relating to the criteria for recognising an intangible asset separately from goodwill. Both boards concluded that an intangible asset must be identifiable (arising from contractual-legal rights or separable) to be recognised separately from goodwill. In its deliberations that led to SFAS 141, the FASB concluded that, when acquired in a business combination, all intangible assets (except for an assembled workforce) that are identifiable can be measured with sufficient reliability to warrant recognition separately from goodwill. In addition to the identifiability criterion, IFRS 3 and IAS 38 required that an intangible asset acquired in a business combination be reliably measurable to be recognised separately from goodwill. Paragraphs 35-41 of IAS 38 provide guidance for determining whether an intangible asset acquired in a business combination is reliably measurable. IAS 38 presumes that the fair value of an intangible asset with a finite useful life can be measured reliably. Therefore, a difference between IFRS 3 and SFAS 141 would arise only if the intangible asset has an indefinite life.

The IASB decided to converge with the FASB in the Exposure Draft by:

(a) eliminating the requirement that an intangible asset be reliably measurable to be recognised separately from goodwill; and

(b) precluding the recognition of an assembled workforce acquired in a business combination as an intangible asset separately from goodwill. (See paragraphs 40 and BC100-BC102.)

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?

Mazars comments

We agree with the assumption that an identifiable intangible asset can be measured with sufficient reliability to be recognised separately from goodwill. However, we consider that this assumption must be rebuttable.
Indeed, we think that in very limited cases, an identifiable intangible asset cannot be measured reliably enough to be recognised separately from goodwill. For example, this could be the case where there is a right of use that is unique, exclusive and not transferable, which would condition the existence of the business.

In the absence of an active market, as required by IAS 38-78, the measurement of these intangible assets is based on valuation techniques, for which it would be necessary to arrange specific guidance. Indeed, we meet several difficulties in measuring identifiable intangible assets in business combinations:

- we are concerned that similar intangible assets might be measured in different ways by different reporting entities, thus reducing comparability;
- we envisage difficulties arising when values are allocated between the various categories of intangible assets relating to customers, such as contracts, backlogs and customer relationships.

**Question 17**

For the joint Exposure Draft, the boards considered the provisions of IAS 12 Income Taxes and FASB Statement No. 109 Accounting for Income Taxes, relating to an acquirer's deferred tax benefits that become recognisable because of a business combination. IAS 12 requires the acquirer to recognise separately from the business combination accounting any changes in its deferred tax assets that become recognisable because of the business combination. Such changes are recognised in post-combination profit or loss, or equity. On the other hand, SFAS 109 requires any recognition of an acquirer's deferred tax benefits (through the reduction of the acquirer's valuation allowance) that results from a business combination to be accounted for as part of the business combination, generally as a reduction of goodwill. The FASB decided to amend SFAS 109 to require the recognition of any changes in the acquirer's deferred tax benefits (through a change in the acquirer's previously recognised valuation allowance) as a transaction separately from the business combination. As amended, SFAS 109 would require such changes in deferred tax benefits to be recognised either in income from continuing operations in the period of the combination or directly to contributed capital, depending on the circumstances. Both boards decided to require disclosure of the amount of such acquisition-date changes in the acquirer's deferred tax benefits in the notes to the financial statements. (See paragraphs D4 and BC119-BC129.)

*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?*

*Mazars comments*

We agree that any changes in an acquirer's deferred tax benefits that become recognisable because of the business combination should be accounted for separately from the business combination.

**Question 18**

The boards reconsidered disclosure requirements in IFRS 3 and SFAS 141 for the purposes of convergence. For some of the disclosures, the boards decided to converge. However, divergence continues to exist for some disclosures as described in the accompanying note Differences between the Exposure Drafts published by the IASB and the FASB. The boards concluded that some of this divergence stems from differences that are broader than the Business Combinations project.
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?

Mazars comments

Although the objective of convergence between IASB and FASB is clearly an important and sound one, we do not see any difficulties in retaining disclosure differences as these divergences originate outside of the BC project.

We consider that these divergences should be considered and resolved in the normal course of the convergence project.

Nevertheless, disclosure differences should not be maintained except in the aforementioned case. We therefore recommend that the Board introduces minimum disclosures on the information about goodwill by reportable segment as required by the exposure draft of the FASB (§ 78 (b)).

Question 19: Style of the Exposure Draft

The Exposure Draft was prepared in a style similar to the style used by the IASB in its standards in which paragraphs in bold type state the main principles. All paragraphs have equal authority.

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?

Mazars comments

We agree with the bold type – plain type distinction and find it helpful. We have not (yet) identified any paragraphs which should be changed from one typeface to another.