28 October 2005

Dear Sir

Exposure drafts of proposed amendments to IFRS 3 Business combinations and IAS 27 Consolidated and separate financial statements

With a membership of in excess of 37,000, the London Society of Chartered Accountants (LSCA) is the largest of the regional bodies which form the Institute of Chartered Accountants in England & Wales (ICAEW). London members, like those of the Institute as a whole, work in practice or in business. The London Society operates a wide range of specialist committees including Technical (accounting and auditing), Tax, Regulation and Ethics Review and Financial Services and Insolvency, which scrutinise and make representations to bodies such as yourselves.

Overall comments on the exposure drafts

We welcome this opportunity to comment on the above documents. We agree that, in a number of areas, there is a need for guidance on and clarification of certain aspects of accounting for business combinations, and we support some of the conclusions that the Board has come to in the exposure drafts. However, we have significant concerns and for the reasons given below we do not, on the whole, support the exposure drafts.

We are particularly concerned with the process by which the proposals have been developed and their timing and we do not agree with the principles for business combinations accounting adopted by the Board in the exposure draft as explained below.

Process and timing

Most people agree that there are many areas in which financial reporting could be improved with some significant application issues and omissions in current accounting standards, including IFRS 3. With this in mind, we do not believe that the IASB and the FASB should have used their limited resources to embark on a significant project to change the accounting for business combinations especially as we are not aware of any significant call to make such a change nor of any feeling among users and preparers that the current model gives inadequate or misleading information. In short, it is not at all clear that there is a problem to be solved.
When such radical changes are proposed it would surely have been better to issue a discussion paper that could have set out properly the arguments for and against any proposals. This would have given constituents a chance to properly debate the issues and would also not have resulted in change so soon after IFRS 3 was issued. This latter point is particularly relevant for the thousands of first-time adopters in Europe and elsewhere who have barely begun to contend with IFRS 3. The proposals are likely to cause confusion, increased costs and a fall in confidence in standard setting. Users need time to evaluate the proposals at some distance from an imminent standard, and round tables, field tests and a discussion paper would all have helped the Board to better put its case forward and engage with constituents. An exposure draft is, by its nature, less discursive, and the Board makes many statements without properly justifying them: simply stating that the proposals will lead to more relevant and reliable information does not make it so.

Instead, we might have expected that the Boards would work together on dealing with some of the issues and omissions in current business combinations accounting such as common control transactions, use of new companies to effect combinations or formation of joint ventures.

We are also concerned that the seeds of phase II of business combinations were sown by two changes to IAS 1 and IAS 27 that were made as part of the improvements project and that, given their significance, were not properly exposed. The nature of minority interest has not been fully debated and it seems that the Boards have concluded that because it is not a liability then it must be equity. From this conclusion many of the premises in the exposure draft have flowed. What minority interest is, and how it may best be presented to give useful information to users, should have been subject to more discussion, probably as part of the project to review the Framework.

On the subject of the Framework it is troubling that this exposure draft introduces ideas and concepts that should have been considered as part of the review of the framework. The scope and purpose of consolidated financial statements, minority interest, cost-benefit and the ideas of relevance and reliability are all related to this exposure draft as well as to the framework.

Finally, IFRS 3 makes explicit reference to the FASB Statement on "Fair Value" which is being finalised in the US, without IASB involvement. Our view is that it is far from ideal that IFRS makes explicit references to FASB statements that its own constituents have not been consulted on.

**Principles in the exposure drafts**

*Exchange of equal values*

The exposure draft proposes that the fair value of the acquired business is measured and that the consideration is also measured at fair value. In most cases the two will be essentially equal. The introduction to the proposed standard states that the measurement attribute is fair value rather than cost accumulation and allocation. The introduction of the proposed standard goes on to state that, 'requiring the recognition of the acquiree and the assets acquired and liabilities assumed at fair value as of the acquisition date improves the relevance and reliability of financial information'. [ED para IN7].

Businesses expend resources in order to earn returns for their owners. It is a fundamentally accepted principle of accounting that a business combination involves one party giving something up (the fair value of the consideration, being cost) in order to gain something else (the acquired business). The cost is allocated to identifiable assets and liabilities at their fair value, with the residual being goodwill. When two entities enter into a transaction each will believe that he is getting a good, or at least worthwhile, deal; it may well be that both sides
believe that there is an unequal exchange of values. In any case, business combinations and valuations involve such a degree of subjectivity that determining the equality or not of the exchange would be extremely difficult to verify with any certainty. The Board's notion of an exchange of equal values adds nothing to financial reporting and it does not help us better understand transactions and results in some counter-intuitive conclusions. If the Board abandoned this notion many of the issues in the exposure draft would be resolved.

**Economic entity model**

Our view is that the primary users of a set of consolidated financial statements are the providers of equity capital of the parent company. Financial statements prepared for that user group are likely to prove useful to others as well but the primary focus should be equity providers to the parent. This has long been accepted and, we contend, is how groups see themselves: the annual report (and the report of the auditors) is addressed to the members of the parent company and the finance director’s commentary, will, for example, report gains made for those equity providers if part of a subsidiary is sold.

We do not accept that minority interests are equity shareholders in the same way as those of the parent company and they should not be treated as such in a set of consolidated financial statements. They do not have an equity interest in the group; they have an equity interest in one part of the group. Transactions with those persons result in gains and losses and in the acquisition of additional economic interests by the group. The parent company shareholders do not get better information from presenting minority interests as equity participants. The information needs of outside equity interests is best served by the financial statements of the entity in which they have an interest. Particularly in cases where there is more than one outside equity interest the information given in the consolidated financial statements that present those interests as being the same as parent equity interests will at best be confusing and will probably mean very little.

The move from a parent company model of consolidation towards an economic entity one is not something that should be attempted in these exposure drafts. We do not think that it is appropriate at this stage for the Board to issue exposure drafts that make implicit assumptions about what the reporting entity is and who the users of financial statements are without having completed its project on the Framework.

**Our proposals**

Whilst we respond to the particular questions in the attached appendix, we also set out proposed alternative model to that proposed by the Board.

Our principles are the following:

- All business combinations within the scope of the standard should be accounted for using the acquisition method;

- Consolidated financial statements should be prepared using the parent company model. We support the alternative view expressed at paragraphs AV1 to AV3 in the IAS 27 exposure draft.

- A business combination involves the accumulation of costs. Although all identifiable assets and liabilities are initially measured at 100 per cent fair value, goodwill is the residual based on the cost of each exchange transaction. (In other words, we support the basis that currently exists in IFRS 3). Goodwill is not, therefore, recognised at 100 per cent but rather based on the parent company’s share.
- Incremental costs directly associated with a business combination should be included in the cost of that combination and, therefore, in the allocation to identifiable net assets and goodwill.

- Changes to amounts of consideration paid are not part of the fair value of what is paid at the date of the transaction and are properly accounted for as adjustments to profit or loss after the date of the acquisition.

Should you wish to discuss any of these matters in more detail, please contact Michael Gaull or Steven Brice at the above address.

Yours faithfully

[Signature]

Steven Brice
Chair
London Society of Chartered Accountants, technical committee
IFRS 3, Business combinations

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. [paragraph 1]

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?

We believe that the definition in IFRS 3 should be retained: ‘the bringing together of separate entities or businesses into one reporting entity’. The proposed definition does not take account of what companies might believe to be, or try to present as, true mergers. While we agree that all business combinations should be accounted for using the purchase method and that, inter alia, an acquirer must be identified, the proposed definition would appear to exclude true mergers from the standard's scope and opens up an area of unnecessary debate between preparers and auditors.

We disagree that the acquiree is measured as a whole. As we have stated in the covering letter, our view is that a business combination should be measured at cost, which is the fair value of the consideration given. That consideration is allocated to identifiable assets and liabilities and the resulting difference is goodwill.

We agree that the acquisition date is the date on which control is obtained.

**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?**

We agree with this definition and the additional guidance.

**Questions 3-7—Measuring the fair value of the acquiree**

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 BC32-BC34.)
Question 3—In a business combination in which the acquirer holds less than 100 per cent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognise 100 per cent of the acquisition-date fair value of the acquiree, including 100 per cent of the values of identifiable assets acquired, liabilities assumed and goodwill, which would include the goodwill attributable to the non-controlling interest? If not, what alternative do you propose and why?

We do not agree. Our proposed model is based on cost accumulation. We agree that 100 per cent of the net assets should be recognised; this is a convention that has long been accepted and, we believe, properly shows the assets and liabilities controlled. As to goodwill, this has been the subject of debate for decades. Our view is that it is best presented as the residual after the identifiable assets and liabilities have been deducted from the cost of the combination. It is too subjective and nebulous to be properly valued in cases where less than 100 per cent has been acquired.

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?

Since we do not agree with the exchange of fair values approach this question is not relevant.

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.)

Question 5—Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree the best evidence of the fair value of that interest? If
not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?

Yes.

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 IFRSSs.

(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?

Yes, we agree that the proposed accounting is appropriate.

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?

No we do not agree. Our proposed model is based on allocating the cost of the business combination. Cost is defined as the amounts of consideration transferred to the vendor plus any costs directly attributable to the business combination (that is, the treatment in IFRS 3 should be retained). When an entity purchases a business it will take the entire cost into account when assessing what will be paid and what the expected or required returns are. This will include any transaction costs paid to third parties as without these costs the purchase cannot realistically take place. In addition, the vendor, while not receiving such costs, will have to take account of costs that have been factored in to purchase price offers by buyers generally when negotiating a price. Including transaction costs better reflects the economics of a business combination.

This accounting treatment is also consistent with other international standards, including IAS 16, IAS 39 and IAS 2 and it would be presumptuous of the Board to change the basis for recognising assets and liabilities in this standard without considering the others. We are not in favour of such costs being expensed generally.

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

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 12 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?

Yes, we agree.

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?

Yes, we agree that these exceptions are appropriate.

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

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
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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?

No it is not appropriate. Although we agree that the existing interest must be fair valued at the date of the acquisition in order that the net assets are recorded at their fair values at that date, we do not agree that a gain or loss should arise in the income statement. Any gain or loss should be recognised in the statement of recognised income and expense ('SORIE'). The existing interest has not been disposed of; it has been retained, albeit in a different form. Any AFS reserve or any gain recognised through the SORIE should be retained until the subsidiary is disposed of.

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?

Based on the principles of our model that we have outlined, that is a cost allocation model with goodwill as a residual, we agree with the proposals. Because goodwill is a residual, negative and positive goodwill would not be recognised on the same transaction: a bargain purchase could not result in both positive and negative goodwill. Because of goodwill's subjective nature we would support the proposals under an exchange of equal values model. (Indeed, the proposals point to the cost allocation model as being more practicable). An overpayment would also not result in any change in the amount of goodwill recognised. In any case we agree that it would not be practicable to measure an overpayment reliably at the acquisition date. If such an overpayment has been made that is not unsupportable by future returns then it should be revealed by impairment testing.

Question 12—Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date? If so, in what circumstances?

No we do not. We believe that overpayments may exist in practice (in order to protect a position in the market, for instance) but that they cannot be measured reliably. As we have noted at question 11, any unsupportable overpayments should be revealed by impairment testing.

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?

No we do not agree, since this is not in line with IAS 8. Such changes are adjustments to estimates and, under IAS 8, should be accounted for prospectively. The proposed treatment is consistent with that required for the correction of errors.

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, 87-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?

We agree that the guidance is sufficient.

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?

We consider that the disclosure principles are appropriate. However, we are concerned by the number of disclosures required by this proposed standard and by other recent international standards (for example, IFRS 2 and the revised IAS 36). Five pages of disclosure requirements cannot surely be necessary. Some disclosure, such as those required by 72(k) and 76(c) appear to be anti avoidance. In a set of audited financial statements we should be
able to rely on a standard having been complied with without having such detailed disclosures. In addition, something like paragraph 80 could be condensed to one requirement to reconcile opening and closing goodwill showing significant movements.

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

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 those 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. 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?

Although we have some doubts that all intangible assets can be measured with sufficient reliability, this is a question that is best answered by valuations specialists. Perhaps the Board could conduct field tests among such specialists to determine whether the range of possible intangible assets can be measured such that wide variations in valuations do not occur when those valuations are based on recognised techniques. However, in general we are of the view that since goodwill is a residual better information is given the more assets can be identified and measured.

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?

We agree.

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?

We believe that disclosure requirements should be converged in order to increase comparability and gain the benefits of a converged standard.

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
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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?

Yes, we find the method of presentation helpful.