Dear Mr Teixeira

Proposed amendments to IFRS3 “Business Combinations” and IAS27 Consolidated and Separate Financial Statements”

I am pleased to submit The Hundred Group’s comments on the above proposals. Our overall comments are set out below. Responses to your specific questions on the proposed changes to IFRS3 are dealt with in Appendix A and those on the proposed changes to IAS27 are dealt with in Appendix B.

We do not believe that there is a pressing need for reform of the application of the purchase method of accounting for business combinations and would prefer that the Board gives priority to more urgent matters such as the review of the conceptual framework, fair value accounting and performance reporting.

We are fundamentally opposed to the proposals on conceptual grounds and we have concerns about the practicalities and relevance of the proposals, in particular with regard to the measurement of the fair value of the acquiree. We also have concerns about the approach taken by the Board in developing the proposals.

The need for new guidance

We do not believe that there is any demand among the users of financial statements for a fundamental change in the application of the purchase method of accounting for business combinations.

We believe that the purpose of consolidated financial statements is to serve the needs of the equity shareholders in the parent and that this principle should continue to provide the basis for the development of accounting standards. We are concerned that the proposals are an example of the desire of accounting standard-setters to adopt a “whole entity approach” to the preparation of consolidated financial statements that, in our opinion, confuses the interests of equity shareholders in the parent with those of non-controlling interests in its subsidiaries.

Commercially, an acquirer pays for a share in the assets and liabilities of a business. It is the cash flows attributable to its share of the assets and liabilities that will ultimately flow to its shareholders. As defined in the current IFRS3, goodwill “represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being
individually identified and separately recognised”. Goodwill is not, therefore, an asset of the acquiree and should not be accounted for as such in a business combination.

We do not accept the implication in the proposed approach that the benefits embodied in goodwill are shared proportionally between the acquirer and the non-controlling interests (for example, goodwill may reflect synergies with the parent’s existing businesses that will not be enjoyed by the non-controlling interests in the acquiree).

**Practicalities of the proposed guidance**

We do not believe that it will always be practicable to determine the fair value of the acquiree based on the fair value of the consideration paid for the parent’s controlling interest in the acquiree particularly where the acquiree is an unlisted entity (which is the case in the majority of business combinations). Further, we believe that the “whole entity approach” leads to an unwelcome extension of fair value accounting in the context of step acquisitions and partial disposals. We are also concerned that the Board has not addressed the implications of the proposed approach for accounting for the underlying investments in the separate financial statements of the parent. Under the proposed IAS27 such investments will continue to be accounted for at cost, i.e. they would not reflect any fair value adjustments that will be recognised on consolidation.

We do not agree that all acquisition costs should be expensed immediately to the income statement. We do not see why the costs directly attributable to the acquisition of business should be treated any differently from costs directly attributable to the acquisition of individual items of property, plant and equipment under IAS16. We believe that the Board should clarify within IAS27 (and, therefore, by reference within IAS28 and IAS31) that “cost” includes directly attributable acquisition costs.

We believe that adjustments to contingent consideration should be dealt with as prospective adjustments to goodwill without restriction by the 12-month “measurement period” that applies to adjustments to the fair values of acquired assets and liabilities. By definition, contingent consideration is contingent on future events and it is not appropriate that adjustments to it should be recognised by the adjustment of amounts presented in prior periods.

**Approach adopted by the Board**

We are concerned that such radical proposals have been made in an Exposure Draft without alternative approaches having first been considered in a Discussion Paper. We were under the impression that the Board believes that the Discussion Paper is an important aspect of the consultation process involving its international constituents. We find it particularly worrying that the Board has chosen to jettison this component of its own due process in the context of its first major collaborative project with the FASB.

Please feel free to contact me if you wish to discuss our comments on the Board’s proposals.

Yours sincerely

Ken Lever
Chairman
The Hundred Group - Financial Reporting Committee
PROPOSED CHANGES TO IFRS3 “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.

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) in which the acquirer holds less than 100 per cent of the equity interests in the acquiree
(d) 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 continue to believe that there are circumstances where the acquisition method is inappropriate and merger accounting should be used. However, the arguments for and against restricting accounting for business combinations to one method were aired during the development of the current version of IFRS3 and we do not propose to revisit them.

We note that the definition of a business combination has changed from the current IFRS3 and now refers to situations where “acquirer obtains control of the one or more businesses” which would seem to scope out true mergers from the provisions of the proposed standard. We do not believe this is the Board’s intention.
Additionally, we do not believe that mutual entities should be subject to the proposed standard. Although the Board asserts in BC188 that the acquisition method provides superior information, it has not demonstrated that it is the more appropriate accounting method in this case.

**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)]

Parasgraphs 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 believe that the amended definition is appropriate, but we do not understand why “dividends” are not included within the scope of “returns to investors”. We believe that the emphasis on activities and assets that are capable of being conducted and managed as a business is a welcome improvement to the definition but we are concerned that, through BC41, the Board has left opportunity for abuse by suggesting that (without clarifying the definition) some groups of assets fall outside the scope of the proposed standard.

**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 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?

We do not agree with the “whole entity approach” that necessitates the measurement of the fair value of the acquiree, for a number of reasons:

- We believe that it is inappropriate in the context of consolidated financial statements because it confuses the interests of equity shareholders in the parent with those of non-controlling interests in its subsidiaries.
• Commercially, an acquirer pays for a share in the assets and liabilities of a business. It is the cash flows attributable to its share of the assets and liabilities that will ultimately flow to its shareholders. As defined in the current IFRS3, goodwill "represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised". Goodwill is not, therefore, an asset of the acquiree and should not be accounted for as such in a business combination.

• We do not accept the implication in the approach that the benefits embodied in goodwill are shared proportionally between the acquirer and the non-controlling interests (for example, goodwill may reflect synergies in the holding company not enjoyed by the non-controlling interests).

We believe that the approach to the measurement of the fair value of the acquiree proposed by the Board will, in most cases, be impractical to apply to non-listed acquirees. We believe that this is a significant issue because most business combinations involve a non-listed acquiree.

We do not concur with the presumption made in the proposals that the fair value of an acquiree is the same for different acquirers. Different acquirers may benefit from their own synergies or be at a different stage of evolution, factors that will affect the amount they will pay for a controlling interest.

We are also concerned that the whole entity approach has ramifications on other areas of accounting for business combinations through IAS27 which have to be addressed in a convoluted fashion to fit in with the 100% goodwill principle, for example, staged acquisitions and disposals.

**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?

The guidance has been developed to deal with fair value of the acquiree and the full goodwill method, an approach which we disagree with (as set out in our response to Question 3). In any event, we do not believe the guidance is helpful and its provisions demonstrate further problems with the full goodwill method. It is simplistic and does not take account of the more sophisticated factors that underpin business combinations. For example, in example A15, it would be likely that AC would have to pay a further premium to acquire the remainder of TC. Whilst the approach has the benefit that the resultant fair value of TC is not less than the price paid for the controlling interest, the guidance does not reflect the fact that the price that AC is willing to pay may represent the appropriate basis of the fair value of TC to AC. Additionally, the guidance suggests different values on goodwill depending on whether 100% or less of a subsidiary is acquired. Finally, the discussions on market value measurement that build on the example of A15 would seem to present opportunities for abuse (in paragraphs AL20 - AL23).

**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?

As noted in our answers to the previous questions, we have concerns about the principle of fair value of the acquiree. However, we believe that use of information at acquisition date to establish the fair value of the consideration (as opposed to the acquiree) is, in principle, correct.
Question 6—Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?

We believe the current approach in the existing IFRS3 is more appropriate. The proposed guidance does not reflect practical issues – for example, contingent consideration often occurs in situations where vendor and acquirer are unable to agree the price. The resultant settlements (and the true up of contingent consideration) are often a reflection of the value of the acquiree at the purchase date and should be adjusted through goodwill (without time limit). We are concerned that there would also appear to be opportunities for abuse in the case of liability based contingent consideration and an inconsistency between the liability and equity approaches (through, for example, share buyback arrangements).

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?

The proposed approach conflicts with certain other IASs, in particular IAS28 and IAS16, as set out in the alternative opinions. Whilst acquisition related costs are not assets, we believe that they should be included in the measurement of the consideration as they form a part of the fair value an acquirer is willing to pay for an interest in the acquiree (and hence, the fair value of that interest to the acquirer). Our comments in Question 3 about fair values being different for different acquirees are relevant here. The crux of the Board's argument for expensing such costs, as set out in BC87, is that the acquirer will pay less to the acquiree to compensate for incurring acquisition costs. This presumes that the fair value of the consideration paid by the acquirer must be the same as the fair value of the consideration received by the acquiree. Whilst such a principle is reasonable on exchange of assets, for example, we do not believe it should be applied without exception to all transactions and does not lend itself well to business combinations.

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 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?

We believe the changes are appropriate, subject to our concerns expressed in our replies on the revisions to IAS37. As noted there, further guidance on subsequent measurement of contingent assets under IAS38 is necessary.

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?

We believe these exceptions are generally appropriate. However, we would like to bring to the Board's attention the unusual position of deferred tax where, unlike the other examples mentioned, fair values may be very different from the amounts that would be recognised in a business combination under the Board's proposals.

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 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?

As noted above, we do not support the principle of the fair value of the acquiree and the requirement to remeasure the existing non-controlling interest. For example, a revaluation of an associate investment may be regarded as reflecting internally generated goodwill. We believe that a carrying value approach would be more appropriate. Although this may be criticized because different bases would be used (for example, an associate would be measured using the equity method of accounting whereas an available for sale investment would be measured at fair value), we believe that it would result in a more appropriate portrayal of such transactions.

Should the proposed approach be adopted, we believe that any gain or loss over existing carrying value should be recognized in equity.
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?

We do not agree with the immediate recognition of a gain but note that this approach is consistent with the current IFRS3.

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?

In paragraph 20, the Board states that “in the absence of evidence to the contrary, the exchange price paid by the acquirer on the acquisition date is presumed to be the best evidence of the acquisition-date fair value of the acquirer’s interest in the acquiree”. Further, it states that where there is evidence to the contrary “the acquirer should measure the acquisition-date fair value of its interest in the acquiree using other valuation techniques”. We do not therefore understand why the Board contends that it would not be possible to measure reliably an overpayment (unless, of course, it shares our concerns about the practicalities of measuring the fair value of the acquiree set out in our response to Question 3).

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?

We recognise that the proposals are consistent with the current IFRS3. However, we believe that measurement period adjustments are changes in accounting estimates that should be dealt with prospectively in accordance with IAS8.
**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?**

We support the principle that business combination accounting should not be used to avoid other accounting consequences. However, we are concerned about the practicalities of measuring the unfavourable elements in the case of a supply contract. Accordingly, we would suggest that, in the absence of settlement provisions in the contract, the whole value of the contract is recognized as an intangible in the business combination. We also believe that more guidance may be necessary in respect of the acquisition of a right granted by the acquirer to prevent what is, in effect, the recognition of an internally generated intangible asset by the acquirer.

**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 are content with the disclosure objectives and minimum disclosure requirements.

**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. 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?

We do not believe that an intangible asset can always be measured reliably and we believe that there should remain the possibility of not separating an intangible asset from goodwill, provided appropriate disclosures are made. The existing provisions of IAS 38 were drafted after field visits and roundtables (detailed in the Basis of Conclusions of IFRS3 BC97 – BC100) and the change appears to have been made on the grounds of convergence rather than principle.

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?

Yes, we agree on the grounds that this is an issue of measurement of an existing asset rather than a recognition of a new one.

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 would have preferred to see full convergence, but we accept that this may not be practically achievable. We believe that convergence does not mean equivalence and the differences do not appear to undermine the belief that the proposed standards would achieve essentially the same accounting result. However, these differences should be eliminated if they would stand in the way of financial statements prepared in accordance with IFRS being acceptable for filing in the US without reconciliation to US GAAP.

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?

We agree with the approach.