
Dear Sir David Tweedie,

- The proposed changes to IFRS 3 result in an increased use of fair value, with pervasive changes in measurement requirements of a business combination. We note the IASB has also tentatively decided to carry out a project on Fair Value Measurement similar to the current FASB project. It seems premature to us that the EDs have been issued in advance of the extensive debate on measurement that these projects seem likely to start. We are concerned that the reliability and verifiability of information presented will be unsatisfactory.

- It is not clear to us what benefits are gained by requiring the acquirer to recognise the acquiree at the acquisition date fair value by adopting the full goodwill approach. The ED talks of improved relevance and reliability, but there is no convincing explanation of why financial statements prepared under the proposals are more relevant and more reliable. It is also not clear to us from the EDs why these benefits are thought to exceed the considerable costs of applying the proposals, for example related to the determination of the acquisition date fair value of the acquiree as a whole that are involved in applying the proposals.

- About proposed entity fair value approach we believe that is not appropriate for the reasons set out by the dissenting Board members in Proposed Amendments to IFRS 3 AV2 – AV7. In our view, the revised standard should continue to be based on the parent-only, cost-based approach of the current IFRS 3. Besides, we suspect that the extended use of fair value for transactions involving non-listed companies or illiquid markets could have a detrimental effect on the quality of the financial information provided.

- We believe that, if changes are to be made to existing Framework concepts, an exposure draft proposing the relevant changes to the Framework should be issued before or at the same time that the conceptual changes are reflected in Exposure
Drafts of IFRSs. Instead, a number of proposals made to recognition and measurement criteria are not consistent with the existing Conceptual Framework (e.g. moving the probability criterion from recognition to measurement). On the contrary, in the paragraph BC 112 of the current IFRS 3, the Board agreed that the role of the probability criterion in the Framework should be considered more generally as part of a concepts project.

- The current impression is that accounting for business combinations is an area subject to constant changes because of the recent and developing changes and due to the work to be carried out in later stages. Amendments to IFRS 3 contains many references to future IFRS on joint ventures and combination of businesses under common control (BC42) and general treatment of acquisition of asset groups (BC41). We suggest the IASB to provide a project timetable on the matters.

- To avoid any doubt in recognising goodwill attributable to the non-controlling interests, we suggest to clearly specify that non-controlling interests have to be presented in the consolidated financial statements only.

- the need to complete the review of the IASB’s Framework in order to have more conceptual certainties regarding the definition of equity and liability before determining technical requirements. This lack is especially clear in the definition and accounting for contingent liabilities and assets, where the accounting treatment results not consistent with many aspects and concepts proposed by the qualitative characteristics;

- the need to determine an «Application Guidance» as an integral part of the Standard, which should explain the most practical aspects; for example, in practise it will be very difficult to implement the approach based on conditional rights an obligations;

- serious doubts referred to the delete of the probability criterion. This decision would concern a more deep analysis and those wide changes should have been anticipated by a conceptual paper introducing and justifying this approach, in order to have a precedent feed-back about such a delicate modification.

We enclose our answers to the questions raised in the IASB’s EDs.

We would be pleased to discuss any aspect of this letter with you.

Yours sincerely,

Consiglio Nazionale Dottori Commercialisti
Il Presidente
Antonio Tamborrino

Consiglio Nazionale dei Ragionieri
Il Presidente
William Santorelli
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.)

CNDC and CNR answer

We agree with the new definition of business combination.
We note the change to the definition of a business combination, that in the current version is defined as “the bringing together of separate entities or businesses into one
reporting entity”, while in the proposed amended version a business combination is “a transaction or other event in which an acquirer obtains control of one or more businesses”. We believe that the change doesn’t produce any substantial effect on considering all business combinations subject to the acquisition method, because paragraph 16 prescribes that in any case an acquirer shall be identified and BC32 of the Amendments to IFRS 3, states that all business combinations included in the scope of IFRS 3 are within the scope of the draft revised IFRS 3. We suppose that control definition is the one of the IAS 27.

As explained more fully below, we are not yet convinced that under the acquisition method the acquirer should measure and recognise the acquiree, as a whole, at its fair value at the acquisition date. Similarly, we are not yet convinced that under the acquisition method the acquirer should measure and recognise the non-controlling interests’ share of goodwill. We prefer the parent entity cost based approach.

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?

CNDC and CNR answer

We acknowledge that the proposed definition of a business is important because all assets acquired or liabilities assumed would be accounted for differently with substantial consequences (e.g. acquisition-related cost, goodwill). We understand that the proposed definition has been changed for convergence reasons and is broader than the current definition because it is based on the notion of “...integrated set of activities and assets that is capable of being conducted....”. The set of activities does not need to be conducted and managed for the purpose of etc; being capable of that is sufficient. Even if we believe that the broadening of the definition could be acceptable, our concerns relate to possible use in practice in order to classify as business a simple group
of assets. This is because the application guidance on this matter could be interpreted in a very subjective way.

In fact, there are fundamental differences between the accounting treatment of acquisitions of groups of assets that are businesses and the treatment of acquisitions of groups of assets that are not businesses, even though the distinction between the two types of transactions is often formal.

In any case, because of the Board in BC41 stated that, conceptually, acquisitions of groups of assets and acquisition of businesses should be accounted for in the same way, especially as the distinction between them can be a matter more of form than substance, we therefore suggest the Board to address this inconsistency as a matter of priority.

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?

CNDC and CNR answer

We believe that the proposed approach is not appropriate for the reasons set out by the dissenting Board members in Proposed Amendments to IFRS 3 AV2 – AV7. In our view, the revised standard should continue to be based on the parent-only, cost-based approach of the current IFRS 3.

We believe it is particularly important in this case to consider the costs and benefits of what is being proposed, and we are not convinced that the Board has identified benefits arising from the proposals that outweigh the cost involved. The benefits mentioned by the Board are the alignment of initial and subsequent fair value measurement and getting closer to a fair value attribute of goodwill in order to present the value of a total business instead of a share acquired, but we doubt that users will see those as benefits that outweigh the aleatory measurement of the goodwill and equity numbers caused by the proposals.

We believe it is premature to propose a further move in the direction of fair value before having a comprehensive debate on the fair value measurement concept.
Question 4 – Measuring the value of the acquiree (Fair value methods)

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?

CNDC and CNR answer

We believe that the ED does not provide sufficient guidance on how to evaluate the fair value of the interest acquired to the fair value of the acquiree as a whole.

We also believe that, in practice, measuring the fair value of an acquiree is not always easily derived from quoted market prices; instead in many cases the calculation is dependent on a number of entity inputs. This will have a direct impact on the reliability of the calculation.

In particular, we believe that paragraphs A8-A26 and the Appendix E don’t allow to solve the following issues in applying fair value measurement of business combinations:

- quotation periods to be considered in applying market approach using quoted prices (the only reference is to a “period that is usual and customary ...”). We suggest to be more precise on the point;
- when the quoted prices in an active market can be not reliable and other valuation techniques have to be used;
- why quoted prices have to be always preferred to income valuation techniques.

We are very troubled by assuming a fair value definition that is a draft definition, because it is based on that one provided in the FASB’s “Proposed Statement Fair Value Measurements”. ED 3 par. 3 and footnote on page 25 state that this definition “may change in that final statement”.

In our view, the IASB should not be seeking comments on a fair value concept that is subject to further change unless it is also proposing to consult on those changes; otherwise there would be a lack of due process. We therefore recommend the Board conducts an appropriate analysis of the approach taken by FASB before accepting it without consultation.

**Question 5 – Measuring the value of the acquiree (acquisition date fair value)**

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?**

**CNDC and CNR answer**

We believe that the acquisition-date fair value of the consideration transferred in exchange for the acquirer’s interest in the acquiree is the best evidence of the fair value of that interest.

Applying this approach to step acquisitions, so that the acquirer shall remeasure its non-controlling equity investment in the acquiree, acquired before the acquisition date, at fair value as of the acquisition date and recognise any gain or loss in profit or loss, is probably consistent with the new entity approach (substituting the parent company approach).

In any case, as stated in the answer to question 3, we prefer the parent entity approach, for which is more consistent the evaluation rules of current IFRS 3.

**Question 6 – Measuring the value of the acquiree (contingent consideration)**

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?

CNDC and CNR answer

Assumed that the proposed approach of acquisition date fair value measurement of the acquiree is the preferred method, the accounting for contingent consideration after the acquisition date is appropriate. However, as already expressed, we have difficulties with the proposed approach and prefer the current cost method of IFRS 3.

Question 7 – Measuring the value of the acquiree (acquisition costs)

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?

CNDC and CNR answer

Even if the proposed approach may be considered consistent with the new entity, fair value approach, anyway we do not agree because we prefer the current IFRS 3 approach. Besides, it should be considered that sometimes a part of the acquisition costs could be assumed by the acquiree and so consequently changed the exchange price. In this case the fair value of the acquiree, if it is based on the consideration transferred, could in practice depend on some contract clauses. Some risks of bad practices could arise. Probably, rules summarised in question 14 mitigate this risk.

Question 8 – Measuring and recognising assets and liabilities (changes to accounting criteria)

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?**

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**CNDC and CNR answer**

We generally agree with the initial recognition and measurement changes but we believe additional explanations on subsequent measurement of (contingent) intangible assets under IAS 38 would be useful.

As regards the recognition criteria for assets acquired and liabilities assumed we note that in contrast to paragraph 37 (a) to (c) of the current version of IFRS 3, the draft revised IFRS 3 in paragraphs 28 to 31 does not mention the ‘reliability of measurement recognition criterion’ anymore. In BC98 of draft revised IFRS 3 the Board explains that it decided to drop the notion because an equivalent statement is already part of the recognition criteria in the Framework (paragraph 86 – 88). Based on our understanding that the Framework cannot supersede a standard and to prevent uncertainty we recommend the Board to reinstate the ‘reliability of measurement recognition criterion’ in the revised IFRS 3 or - as a minimum - include a direct reference to the Framework paragraph.

See also our response to ED of IAS 37.

**Question 9 – Measuring and recognising assets and liabilities (exceptions to fair value)**

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?

CNDC and CNR answer

We agree with the Iasb’s position.

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?

CNDC and CNR answer

We believe that the IASB’s approach, that require to remeasure the non-controlling equity investments at fair value as of the acquisition date, recognising any gain or loss in profit and loss, is consistent with the entity approach based on full goodwill method.

Instead, a direct effect recognised to equity is consistent with this approach along the period the control exists.

In any case, we stress our general preference for the parent company approach (see before), and so we disagree with Iasb’s position.

Question 11—Measuring and recognising assets and liabilities (underpayments)

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?

**CNDC and CNR answer**

We note that the Board itself admits (in BC177) that this limitation of gain recognition is inconsistent with the general fair value attribute and could lead to transactions being misrepresented. The Board argues that this is necessary because otherwise it “could lead to other difficulties in practice”.

It shows that, despite the Board’s insistence that fair value is an appropriate measurement basis in most circumstances, the Board remains uncomfortable with some of the apparent implications of a fair value measurement system.

**Question 12**—Measuring and recognising assets and liabilities (overpayments)

**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?

**CNDC and CNR answer**

We do believe there are cases where an overpayment exists. For example, market leaders sometimes acquire competitors just to close them down so that the competition disappears.

However, it can be difficult to measure that overpayment reliably, because it is often difficult to measure the fair value of the acquiree reliably.

**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?

CNDC and CNR answer
We agree with the IASB’s position.

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?

CNDC and CNR answer
We agree with the IASB’s position. We believe that the guidance provided is quite sufficient and detailed 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.

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?

**CNDC and CNR answer**

We agree with the disclosure objectives but we believe that the minimum requirements are too extensive and may not meet the cost benefit criterion.

**Question 16 – IASB-FASB convergence (intangibles)**

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
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?

CNDC and CNR answer
In theory, we do not believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognised separately from goodwill. We can think of a licence to operate that cannot be sold without the consent of a regulator and would be revoked in the case of a change of control of the current holder. In any case, we understand that it is unlikely to individuate such items in a business combination transaction.

Question 17 – IASB-FASB convergence (tax assets)
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?

**CNDC and CNR answer**
We agree with the IASB’s position.

Question 18—IASB-FASB convergence (disclosure)
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.

**CNDC and CNR answer**
We regret that, although the objective was to achieve full convergence between the IASB and FASB standards, some divergence still remains on a few limited matters. We would prefer convergence of standards in all respects rather than a step by step approach. However, we understand that most of the differences identified arise because the “boards’ decisions to produce guidance for accounting for business combinations that is consistent with other existing IFRSs or FASB standards”.

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.

**CNDC and CNR answer**
We agree with the bold type – plain type distinction and find it helpful.