The Irish Bankers Federation (IBF) is the leading representative body for the banking and financial services sector in Ireland. Membership comprises 60 financial institutions - including licensed domestic institutions and foreign banks operating in the International Financial Services Centre (IFSC).

The Irish Bankers Federation welcomes the opportunity to comment on the Boards exposure drafts of Proposed Amendments to IFRS 3 'Business Combinations', to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and IAS 19 'Employee Benefits' and to IAS 27 'Consolidated and Separate Financial Statements' ('the EDs'). We set out our views on the questions posed in the current exposure draft below.

Business Combinations is an extremely complex area and we welcome any simplification in the area. The objective of the ED (according to the IASB) in this regard is merely to introduce follow up changes to the first phase of Business Combinations, IFRS3, and eliminate the differences between existing standards, which the IBF welcomes greatly. Business Combinations is being dealt with by means of a multi-phased long-term project. The current ED makes references to later stages of the project but the precise extent of these future phases and the timeframe within which they will be delivered is not explained. It would be of practical use were IASB to clarify its proposals and furnish an entire project timetable. Clearly, this would afford an opportunity to those considering the proposals to view them in their proper context. We consider it important that IASB ensures that decisions taken in the early phase of a multi-phase project are not subsequently amended, with the effect of altering a standard that has already been established in practice. When changes to standards are made in quick succession, companies have to invest heavily, both time and money, to keep up with the new rules without any discernable added value for users necessarily resulting from the amendments. This problem is particularly acute at the moment as our members implement IFRS for the first time but recognise that a number of key standards will change in the medium term.

It is our view that there have been some flaws in the process of issuing the EDs. In the normal course of dealing with such significant amendment, it would be expected that a discussion paper would first be issued by the IASB as this would afford interested parties an opportunity for detailed consideration of the proposed conceptual changes at an early stage. We consider the absence of a discussion paper in this instance to be a mistake and we would expect that responses from other bodies will bear this out. The amendments suggested mark a considerable drift away from existing practice. Accordingly, we are of the view that these substantive changes to IFRS should not have been produced as EDs but more properly should have been subject to a consultation process involving discussion papers affording interested parties an opportunity to engage in a meaningful dialogue with IASB.
We are particularly concerned about two aspects of the EDs. Particularly, we find it difficult to understand the rationale behind the move from the current parent company consolidation approach to an entity model. Under the previous system, to our mind, there were no theoretical flaws in the parent company approach. We consider that the Board should not move to the entity model without further detailed consideration of this issue.

We are also opposed to the Board's proposed change in the application of the probability criterion in the recognition and measurement of liabilities. We believe probability is inherent in the definition of a liability and therefore in the decision to recognise a liability.

Our response to the specific questions posed in the exposure drafts are set out below.

**Issues raised in the invitation to comment**

**ED OF PROPOSED AMENDMENTS TO IFRS 3 BUSINESS COMBINATIONS**

**Question 1 – Objective, definition and scope**

*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?*

Our belief that true mergers occur in practice is not endorsed by IASB. IBF poses no objection to affording the principles of IFRS 3 to business combinations involving only mutual entities and to business combinations achieved by contract alone.

**Question 2 - Definition of a business**

*Is the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business? If not, how would you propose to modify or clarify the definition or additional guidance?*

We believe that it is a reasoned approach that Board should clarify when a group of assets or net assets constitute a business as the accounting differs. IASB's definition in this regard is not precise enough. Guidance notes set out at paragraphs A2 to A7 are unclear and would be improved by clear examples setting out the underlying concepts in order pinpoint the important differences between a business and a collection of assets and liabilities.

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

*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?*
IBF has noted views expressed by dissenting IASB members (see paragraphs AV2 – AV7) and we are in agreement with those opinions. The Basis for Conclusions states that relevant information is provided by the full goodwill method. The argument for this approach is that financial statements including all assets under the entity’s control are more useful; goodwill is an asset, accordingly the full amount of goodwill should be recognised. This approach circumvents the crux of the matter: is the full amount of goodwill more useful for the reader than the acquirer’s share. IBF does not consider that it is.

As mentioned above, we do not agree the move to an entity model for consolidated financial statements. This model might have value but has not been subjected to open debate further to the publication of a discussion paper nor has the IASB convincingly demonstrated this in the exposure draft or furnished suitable examples.

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?

An indication of the complications and complexities in ascertaining the fair value of the acquiree as a whole on the basis of a transaction, in which a majority stake is acquired, we fundamentally disagree with the IASB’s proposed accounting model. Furthermore, we entirely disagree with IASB’s assertion that this approach will improve the relevance and reliability of financial information.

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, our view is in line with IASB’s view that the fair value of the consideration given on the date of acquisition is the best evidence of the fair value of the acquired interest.

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

Yes.

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 fully support the views of the dissenting members set out in AV18. The costs of acquisition are an element of the consideration and should be treated as such.
Questions 8 and 9—Measuring and recognising the assets acquired and the liabilities assumed

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.

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. There are no further exceptions that we would add.

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

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?

It is our view that measurement of the acquisition date for fair value of the non-controlling interest will pose many practical problems. It seems to us that the amendments proposed do not reflect any improvement from the current accounting practice.

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 are unsure about IASB’s suggestion of recognising a gain where consideration is less than the fair value of net assets acquired. The Irish GAAP approach to negative goodwill set out in FRS 10 is far more robust in our view.

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?

IBF believes that such circumstances exist but only in very limited circumstances and may be driven by errors in the original data. Market practice dictates that investors do not overpay and identifying such overpayment would prove almost impossible.

Question 13 - Measurement period

Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?

Yes.
Question 14 - Assessing what is part of the exchange for the acquiree

Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree? If not, what other guidance is needed?

Yes. Please also see 7 above – IBF considers that transaction costs should be included in the measurement of consideration.

Question 15 - Disclosures

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?

Yes.

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

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?

The framework does not permit the recognition of an asset if it cannot be measured reliably. We fail to see what practical change is delivered by deleting the reliability criterion from IFRS 3 when it continues to be required by the framework.

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.

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?

There seems to be little point in retaining minor disclosure differences given the Boards’ convergence objective.

Question 19 - Style of the Exposure Draft

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?
Cathrine Burke
Head of Accounting and Tax
Irish Bankers Federation