Consultation Response to “FRED 36 Business combinations (IFRS 3) Amendments to FRS 2 accounting for subsidiary undertakings (Parts of IAS 27 and consolidated and separate financial statements)"

The Federation represents nearly 1400 independent, not for profit housing providers. Our members include Registered Social Landlords, Housing Associations, Co-ops, Trusts and transfer organisations. They manage more than 1.8 million homes provided for affordable rent, Supported Housing and Low Cost Home Ownership as well as delivering a wide range of community and regeneration services.

The Federation is pleased to have the opportunity to respond to the Accounting Standards Board on the exposure draft entitled “FRED 36 Business combinations (IFRS 3) Amendments to FRS 2 accounting for subsidiary undertakings (Parts of IAS 27 and consolidated and separate financial statements)”. 

The text below summarises our responses to the specific questions on which the ASB has requested comment.

1. Should the IASB proposals succeed to a Standard the ASB would prefer to defer implementation until the full impact of the proposal can be evaluated through practical implementation. The following options for implementation into UK accounting standards have been identified, which would you prefer? Please explain your preference.

   i. implement the Business Combinations 'package' in full simultaneously with the IASB (i.e. 1 January 2007);

   ii. not to implement immediately but reconsider implementation of the Business Combinations 'package' after a period of time has lapsed and the IFRS have been in effect. This would allow consideration of the practical implications to be more fully researched;

   iii. issue Phase I (FRED 37 Intangible Assets and FRED 38 Impairment of Assets) to be effective 1 January 2007 but defer Phase II (FRED 36 Business Combinations and FRED 39 Amendments to FRS 12 and FRS 17) until after the IFRS are effective and consideration of the practical implications are more fully researched; and

   iv. issue Phase I (as in (iii) above) plus FRED 39. It might be noted that the Preface to FRED 39 sets out some concerns the Board has in relation to the proposed amendments to FRS 12.
We agree with the Board's concerns that the proposed amendments to IAS 27 fail to recognise adequately that the focus of financial reporting is to report to the shareholders of the parent entity, or within the social housing sector to the Members of the parent entity. In particular we agree with both the Board's view that the treatment of transactions with non-controlling interests as mere equity transactions fail to report adequately gains and losses the directors of the entity may make, and that the recognition of full goodwill requires a hypothetical transaction that results in a highly subjective measurement of full goodwill. Given these reservations we concur with the 'wait and see' strategy outlined in option two above.

2. Do you support the proposal, as set out in paragraphs 54 and 55, that the UK IFRS based-standard should include an option, to allow goodwill having a limited useful life to be amortised over its useful life?

We agree with the proposed alternative to include an option to allow goodwill to have a limited useful life subsequently amortised over its useful life primarily as we concur that it's a practical alternative for many social housing landlords to conducting annual impairment reviews.

3. The draft FRS excludes from its scope the accounting for business combinations under common control. The Board is considering whether to include additional guidance in the UK IFRS-based standard that would retained some of the provisions of FRS 6. FRS 6 permitted group reconstructions to be accounted for by applying merger accounting. Do you consider the Board should retain those provisions of FRS 6 that permit the use of merger accounting for group reconstructions? Do you consider that any guidance is needed? If so please provide details for the type of guidance you consider necessary.

We agree. This is particularly relevant in the social housing sector where there are a large number of group reconstructions, mergers and acquisitions ongoing. Vary rarely is any consideration paid and as such using acquisition accounting that does not necessarily reflect the substance of the transaction. Whilst understanding the criticisms of merger accounting, in many cases using this method best fits the actual substance of the new entity. Therefore we would support the Board in retaining the provisions of FRS 6 that permit the use of merger accounting in the short term. We would however also support the Board in its work with the IASB to research 'fresh start' accounting as this method may more closely reflect the true nature of the combinations of entities.

4. The draft IFRS sets out in paragraph 43 that an acquirer shall measure and recognise, separately from goodwill, an acquired non-current asset (or disposal group) that is classified as held for sale as of
the acquisition date in accordance with paragraphs 7 – 11 of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. IFRS 5 is not an adopted UK IFRS-based standard. Previously FRS 7 required business operations to be sold within one year of the acquisition date to be treated as a single asset and the fair value to be based on the net proceeds of sale. The draft UK IFRS-based standard proposes to retain those paragraphs of FRS 7 that were previously applicable. Do you agree with this proposal?

We agree with the Board's proposal to retain the paragraphs of FRS 7
FINANCE POLICY TEAM

NHF Consultation Response

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