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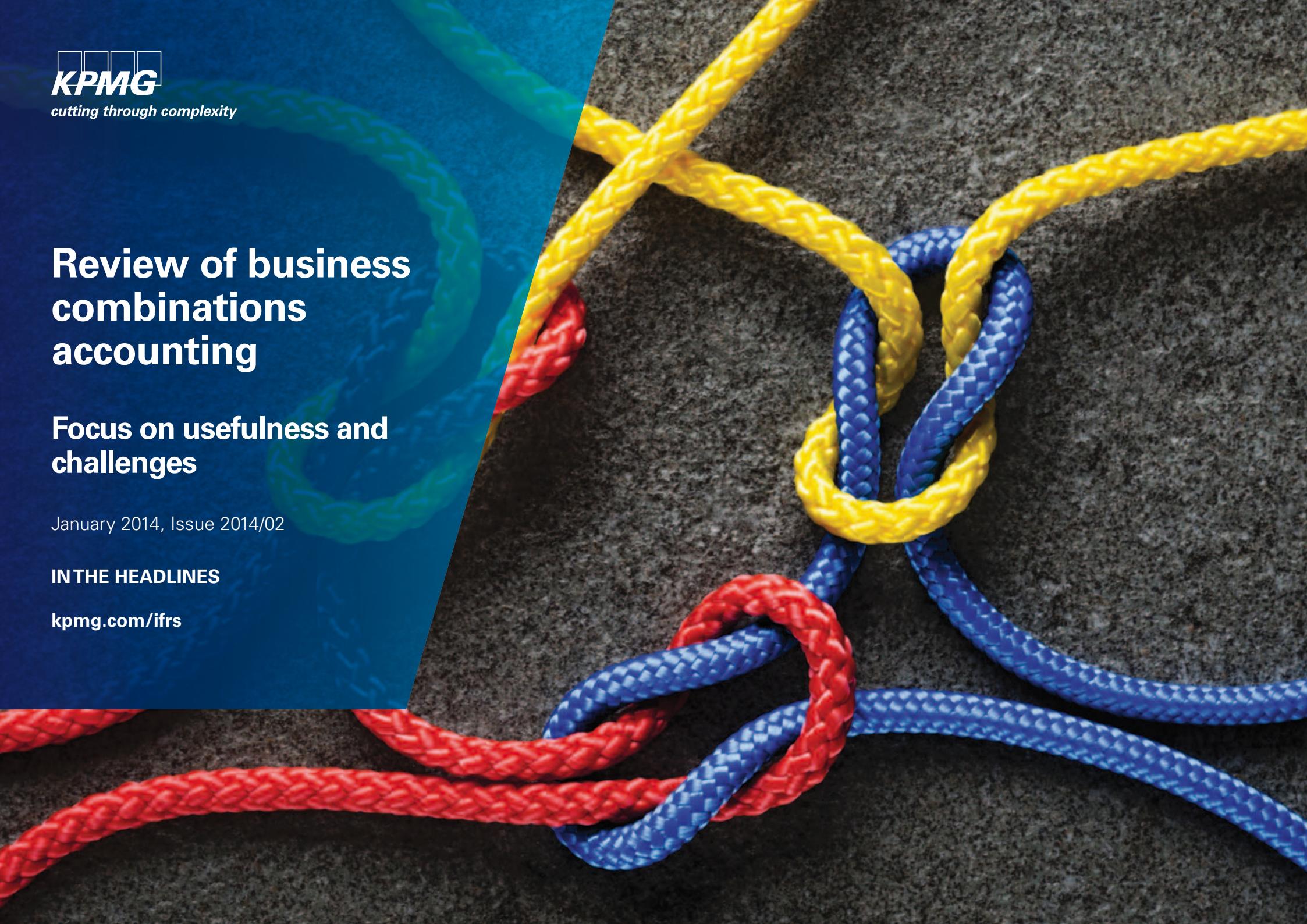
Review of business combinations accounting

Focus on usefulness and challenges

January 2014, Issue 2014/02

IN THE HEADLINES

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“We know that there have been issues with the implementation of IFRS 3, so constituents should take this opportunity to provide feedback based on their practical experience of the standard.**”**

– Mike Metcalf, KPMG’s global IFRS business combinations and consolidation leader

Focus on usefulness and challenges

To help assess whether its new standards and major amendments are working as intended, the IASB conducts post-implementation reviews as part of its due process. In line with this practice, the IASB has issued a request for information (RfI) on IFRS 3 *Business Combinations*¹. Published on 30 January 2014, this latest RfI seeks formal feedback from constituents on practical issues, and focuses on:

- the *usefulness* of the accounting and disclosure requirements – especially for users such as investors, analysts and creditors; and
- the *challenges* in applying the requirements – for preparers, valuation specialists, auditors, standard setters and regulators.

Wide range of feedback sought

The RfI covers the following areas (including example questions), although feedback on other practical implementation issues is welcome.

¹ IFRS 3 was issued in 2004 and was subject to major amendments in 2008.

Definition of a business	<ul style="list-style-type: none"> • How difficult is it to distinguish a business from a group of assets? • Is it beneficial to have different accounting treatments?
Fair value	<ul style="list-style-type: none"> • What challenges have you encountered in measuring fair value?
Separation of intangible assets from goodwill, and negative goodwill	<ul style="list-style-type: none"> • Is it useful to recognise intangible assets separately from goodwill? • Is the recognition of negative goodwill in profit or loss helpful?
Non-amortisation of goodwill and indefinite-lived intangible assets	<ul style="list-style-type: none"> • How useful is goodwill impairment testing? • What difficulties have you encountered in testing goodwill for impairment?
Non-controlling interests (NCI)	<ul style="list-style-type: none"> • Does the accounting for NCI actually reflect claims on equity by such shareholders?
Step acquisitions and the loss of control	<ul style="list-style-type: none"> • How useful is step acquisition accounting? • Is the remeasurement of the retained investment on the loss of control helpful?
Disclosures	<ul style="list-style-type: none"> • What disclosures are not useful? • Would other disclosures be useful?

The IASB is also asking for views on the benefits of the standard, whether its implementation has resulted in considerable unexpected costs, and how it has affected the way in which acquisitions are carried out.

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Work plan still to be decided

The scope of the RfI is broad, and includes a number of areas of diversity that have previously been considered by the IASB and/or the IFRS Interpretations Committee – e.g. the definition of a business in the real estate sector.

However, the broad nature of the consultation does not necessarily mean that the IASB is contemplating a complete rethink of business combinations accounting. The RfI emphasises that the IASB will assess the responses received based on the merits of the information, rather than on the absolute number of responses on a particular point.

For these reasons, it is important that responses focus on providing the reasoning behind comments being made, highlighting practical issues in terms of usefulness and challenges.

Next steps

We encourage constituents to respond to the RfI, which is open for comment until 30 May 2014. Publication of the findings and the IASB’s responses is expected in the last quarter of 2014. Depending on the responses, the IASB might decide to retain the existing requirements, to continue to monitor implementation issues, or to revise the standard.

For more information on the RfI, please go to the [IASB press release](#) or speak to your usual KPMG contact.

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