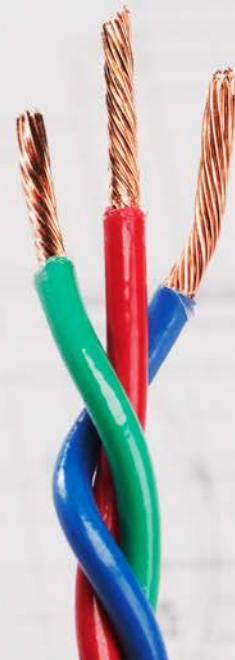


# Business combinations

## Is IFRS 3 working as intended?

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**“The IASB has recognised that some constituents, particularly preparers and auditors, have concerns about the practicality and usefulness of some parts of IFRS 3, which is good news. It remains to be seen, however, whether they will decide that change is required.”**

### The IASB has reviewed feedback on the effectiveness of business combination accounting

#### Highlights

- Assessing usefulness and challenges – IASB reviews feedback on IFRS 3
- The findings – Preparers and auditors identify areas of complexity and ambiguity
- Research first – New topics added to research agenda
- But will anything change? – No indication given at this stage

#### Assessing usefulness and challenges

The IASB has published a feedback statement on its post-implementation review of IFRS 3 *Business Combinations*. The focus of the review was the usefulness of and challenges in applying the requirements.

Most of the responses came from preparers and auditors, but the IASB also held outreach events and performed a review of academic literature to assess the impact of IFRS 3.

#### The findings

The key finding is that many preparers and auditors – including KPMG – have identified several areas of complexity and ambiguity, especially in the accounting for goodwill and intangible assets, and the value of separating out some intangibles. Some investors echoed similar concerns; however, other investors and academics have expressed support for the standard’s status quo.

## Research first

The IASB has added the following four areas to its research agenda.

Areas of focus	Proposed research work
Separating intangible assets such as customer relationship and brand names	Consider whether particular intangible assets – e.g. customer relationships – should be subsumed into goodwill or if additional guidance is required to help identify the customer relationship intangibles.
Subsequent accounting for goodwill	Consider how the impairment-only approach could be improved or whether an amortisation and impairment model could be developed without losing the information currently provided by the impairment-only approach (in effect an annual confirmation of the value of past acquisitions).
Effectiveness and complexity of impairment testing for goodwill	Review IAS 36 <i>Impairment of Assets</i> and consider improvements to the impairment model.
Clarifying the definition of a business	Consider improving the clarity of the definition, but also whether to relieve some of the stress by applying business acquisition accounting to asset acquisitions – e.g. deferred tax approach.

## But will anything change?

The research will not lead directly to changes to IFRS 3 (or IAS 36), but to a decision as to whether to propose changes. Currently, no timetable has been given. It is difficult to predict whether significant changes will eventually be made as there is support among some investors and academics for the status quo.

Read the [IFRS 3 feedback statement](#) for a more detailed outline of the next steps being considered by the IASB.