IASB begins public consultation on the post-implementation review of IFRS 3

What you need to know

- This document is intended to formally gather information from a broad range of the IASB's constituents about their experience with implementing IFRS 3.
- The request for information is open for comment until 30 May 2014.
- Following the completion of the post-implementation review, the IASB will present its findings in a report and feedback statement and will set out the steps it plans to take, if any.

Highlights

On 30 January 2014, the International Accounting Standards Board (IASB or the Board) began the public consultation stage of its review of IFRS 3 by publishing a request for information (RFI) on experience with, and the effect of, implementing the standard. The RFI is seeking feedback on the following: whether the standard provides information that is useful to users of financial statements; whether there are areas of the standard that represent implementation challenges; and whether unexpected costs have arisen when preparing, auditing or enforcing the requirements of the standard.

Background

The IASB is required to conduct a post-implementation review (PIR) of each new standard or major amendment, which was added by the IFRS Foundation Trustees as a mandatory step in the IASB’s due process requirements in 2007. IFRS 8 Operating Segments was the first of the IASB’s standards to be subject to a PIR, which was completed in 2013. IFRS 3 Business Combinations is the second PIR to be undertaken by the IASB.

A PIR normally begins after a standard has been applied internationally for at least two years, which is generally about 30-36 months after the effective date. IFRS 3 (as revised in 2008) and an amended version of IAS 27 Consolidated and Separate Financial Statements were issued in January 2008 and came into effect on 1 July 2009.
Each PIR consists of two phases. The first phase of the PIR of IFRS 3 began in July 2013. It consisted of an initial assessment of all of the issues related to business combinations accounting, followed by consultation with interested parties about the issues. The first phase identified the main questions that will be addressed in the PIR of IFRS 3, and these questions are included in the RFI as a formal request by the IASB to gather information from its constituents.

The second phase of the PIR begins after feedback on the RFI is received from constituents. During the second phase, the Board will consider the submissions received, along with information gathered through other consultative activities. The findings of the PIR will then be published in a report and feedback statement.

**Scope of the post-implementation review**

The PIR covers information on all aspects of the application of IFRS 3, in respect of both IFRS 3 (as originally issued in 2004) and IFRS 3 (as revised in 2008), as well as any resulting consequential amendments to other standards (i.e., amendments to IAS 12 Income Taxes, IAS 36 Impairment of Assets, IAS 38 Intangible Assets, etc.).

The IASB plans to use the PIR of IFRS 3 to assess the effect of the application of IFRS 3 on financial reporting from the perspective of preparers of financial statements, investors and other users of financial statements, market regulators, the audit profession, accounting standard-setters, valuation specialists and academics. In particular, the IASB aims to assess whether:

- IFRS 3 provides information that is useful to users of financial statements
- There are areas of IFRS 3 that represent implementation challenges and, as a result, impair the consistent implementation of its requirements
- Unexpected costs have arisen when preparing, auditing or enforcing the requirements of the standard or when using the information provided by the standard

However, the scope of this PIR does not cover the accounting for business combinations under common control. The IASB is addressing this area through a separate research project.

**Request for information**

The accounting for business combinations encompasses a wide range of areas. In the RFI, the IASB is looking to gather the information described in the scope section above, for the following areas:

- Defining a business
- Using fair value measurement in business combinations accounting
- Recognising intangible assets separately from goodwill, and accounting for negative goodwill
- Testing for impairment, rather than amortising, goodwill and indefinite-life intangible assets
- Measuring and presenting non-controlling interests
- Accounting for step acquisitions and for retained investments after loss of control
- Disclosing the nature and effect of a business combination

The IASB is also giving respondents an opportunity to provide information on any additional matters that they think are relevant and that have not been addressed by the individual questions in the RFI.
Next steps
The RFI is open for comment until 30 May 2014. Based on the submissions received and the information that is gathered during the second phase of the PIR, the Board will present its findings in the report and feedback statement and will set out the steps it plans to take, if any, as a result of the review.

Depending on the nature of any findings, these steps could lead to the IASB deciding to:

- Retain IFRS 3 as issued
- Continue to monitor the implementation of IFRS 3, if the results of the PIR are inconclusive
  - Or
- Revise IFRS 3 to remedy problems identified by the PIR

The IASB expects to publish the report and feedback statement by the end of 2014.

How we see it
The PIR is an opportunity for the IASB to assess the effects of the requirements of IFRS in the area of business combinations accounting. It may lead to the identification of areas of IFRS that would benefit from clarification or amendment. We encourage constituents to take this opportunity to provide feedback to the Board.