IASB
30 Cannon Street
London
EC4M 6XH

Paris, June 5, 2014

RE: Comments on Request for Information: Post-implementation Review: IFRS 3
Business Combinations

Dear Sir / Madam,

Mazars welcomes the opportunity to answer to the Request for Information on the Post-
implementation Review of IFRS 3.

These are our main concerns regarding the implementation of IFRS 3, derived from our
experience of this standard as auditors and discussions that we had with preparers and
analysts.

Accounting differences between an acquisition of assets and a business combination

The boundary between an acquisition of assets and a business combination is not always clear.
As the Board has recently extended the use of the notion of business as a dividing line
between different accounting requirements, and considering the fact that determining whether
a group of assets constitutes a business proves to be difficult and subjective, we would suggest
that the Board provides additional guidance on this subject.

Additionally, we believe that only minor accounting differences should remain between a
business combination and an acquisition of assets that do not constitute a business for
transactions for which there is a doubt about whether they constitute a business combination.
That is why we consider the following differences as irrelevant or at least questionable:
acquisition costs, contingent consideration, consideration paid in equity instruments of the
acquirer and deferred taxes.
Use of fair value as defined by IFRS 13

We strongly believe it would be more relevant to measure the assets and liabilities of the acquiree according to the management’s intentions and business model, rather than according to IFRS 13. Indeed, the “market participant” and “highest and best use” approaches, included in IFRS 13 and applied to each asset and liability separately, are neither consistent with the unit of account of the transaction nor the economics and rationale of the acquisition.

Step-acquisitions, loss of control and accounting for transactions on NCIs

The profit or loss effects of step acquisitions or partial disposal with loss of control may conceptually be justified, but are well understood neither by management nor users of the financial statements. Recognising profit on elements that are not part of the transaction is considered by many as irrelevant, all the more that actual transactions with NCIs never affect profit or loss.

The accounting for transactions with NCIs hides the actual amount of investment made by the group in a subsidiary, and does not allow to portray the actual performance of the investment for the group once control is lost.

Goodwill, impairment and amortisation

We believe that the IASB should take advantage of the current debates regarding the relevance of non-amortisation of goodwill to reassess the usefulness of the current accounting requirements in that respect, taking into account practical rationale rather than conceptual ones.

Contingent consideration

We would encourage the Board to revisit the accounting treatment regarding contingent consideration:

- Subsequent changes in contingent consideration accounted for in profit and loss:
  
  An increase in contingent consideration to be paid usually means that the fair value of the business acquired, or the fair value of a specified asset to which the contingent payment is linked, is higher than initially estimated.

  Accounting for changes in the contingent consideration liability in profit and loss, with no corresponding changes in the value of goodwill or of the specified asset, seems counter-intuitive, and does not faithfully represent the economics of the transaction.

- Contingent consideration that is conditioned by the presence of the seller

  The wording in IFRS 3 should be clarified to state that contingent consideration that is conditioned by the presence of the seller is presumed to be post-acquisition employee compensation (i.e. this rebuttable presumption could be reversed, based on facts and circumstances).
Accounting for negative goodwill

A negative goodwill is frequently justified by future restructuring expenses or future operating losses to be incurred before restoring the profitability of the acquiree, that the acquirer cannot account for at acquisition date. As a consequence, always accounting for negative goodwill in profit and loss at the time of acquisition does not appear to be economically justified.

Our answers to the specific questions raised in this Request for Information are presented in the attached appendix.

We would be pleased to discuss our comments with you and are at your disposal should you require further clarification or additional information.

Yours sincerely,

Michel Barbet-Massin
Head of Financial Reporting Technical Support
Appendix: detailed answers to the questions raised in the Request for Information.

**Question 1**

Please tell us:

(a) about your role in relation to business combinations (ie preparer of financial statements, auditor, valuation specialist, user of financial statements and type of user, regulator, standard-setter, academic, accounting professional body etc).

(b) your principal jurisdiction. If you are a user of financial statements, which geographical regions do you follow or invest in?

(c) whether your involvement with business combinations accounting has been mainly with IFRS 3 (2004) or IFRS 3 (2008).

(d) if you are a preparer of financial statements:
   (i) whether your jurisdiction or company is a recent adopter of IFRS and, if so, the year of adoption; and
   (ii) with how many business combinations accounted for under IFRS has your organisation been involved since 2004 and what were the industries of the acquirees in those combinations.

(e) if you are a user of financial statements, please briefly describe the main business combinations accounted for under IFRS that you have analysed since 2004 (for example, geographical regions in which those transactions took place, what were the industries of the acquirees in those business combinations etc).

Mazars is an international, integrated and independent organisation, specialising in audit, accountancy, tax, legal and advisory services. Our firm primarily audits financial information prepared in accordance with IFRSs.

Mazars can rely on the skills of 13,800 professionals in the 72 countries which make up its integrated partnership worldwide.
Question 2

(a) Are there benefits of having separate accounting treatments for business combinations and asset acquisitions? If so, what are these benefits?

(b) What are the main practical implementation, auditing or enforcement challenges you face when assessing a transaction to determine whether it is a business? For the practical implementation challenges that you have indicated, what are the main considerations that you take into account in your assessment?

We believe that there are differences between a simple asset purchase and the acquisition of a large and complex business. The main difference is that when acquiring a business, the acquirer does not only pay for a list of identifiable assets, but also for the ability of these assets, with the relevant associated processes, to generate cash flows that exceed the sum of the fair values of the identifiable assets. In other words, the acquirer pays for goodwill.

Business combinations are often complex transactions, and it is not questionable that the accounting requirements for these transactions are complex as well.

However, in certain circumstances, determining whether a group of assets constitutes a business proves to be difficult and subjective. This is particularly difficult in some industries, including real estate, extractive industries and pharmaceutical companies.

The notion of processes, included in the definition of a business, is particularly difficult to apprehend, and the fact that not all inputs or processes need to be present for a business combination to occur makes the analysis challenging.

This is all the more disturbing as the Board has recently extended the use of the notion of business as a dividing line between accounting requirements (as in the acquisition of an interest in a joint operation or the sale or contribution of assets between an investor and associate or joint-venture).

In cases where the boundary between a business combination and an acquisition of a set of assets that does not constitute a business appears to be thin, the relevance of significant accounting differences between both qualifications is really questionable.

In that respect, we would like to point out that there exist more accounting differences than those presented by the IASB in its Request for Information, some of them being very significant. Inter alia:

- Accounting for a contingent consideration, or
- Accounting for a consideration paid in the acquirer’s equity instruments.
Some accounting differences may be justified by the usual complexity of business combinations. We nevertheless believe that when a transaction is not complex, only minor accounting differences between a business combination and an acquisition of assets should remain. This questions the relevance of the accounting differences relating to transactions costs, contingent consideration, consideration paid in equity instruments or deferred taxes. We do not believe that these differences are justified on a conceptual basis.

**Question 3**

(a) To what extent is the information derived from the fair value measurements relevant and the information disclosed about fair value measurements sufficient? If there are deficiencies, what are they?

(b) What have been the most significant valuation challenges in measuring fair value within the context of business combination accounting? What have been the most significant challenges when auditing or enforcing those fair value measurements?

(c) Has fair value measurement been more challenging for particular elements: for example, specific assets, liabilities, consideration etc?

We believe that the principle of measuring assets and liabilities acquired in a business combination at “fair value” at acquisition date is generally relevant.

Nevertheless, we question the relevance of the use of “fair value” as defined by IFRS 13 in the context of a business combination. In particular, it raises questions regarding the market participant approach and the unit of account.

The market participant approach, when measuring assets and liabilities acquired in a business combination, seems very theoretical. It is less than probable that there exist other market participants willing to purchase the acquiree at a same date, for a same amount and with the same objectives. Moreover, this approach has to be applied on an asset-by-asset basis, which is a unit of account different from that of the actual transaction. IFRS 3 requires to measure separately identifiable assets that were not offered for sale separately, or that cannot even be sold separately from the acquiree.

We acknowledge that there may exist a market participant willing to acquire a specified asset, but this market participant would probably not be willing to acquire the entire business and the other assets that constitute it.
That is why we believe that the initial measurement of assets and liabilities acquired should reflect the objectives of the management when acquiring the business. In particular:

- A trademark that will be abandoned by the acquirer should not be accounted for at a price a market participant would have offered for acquiring this trademark separately;

- A land or a building used to operate the business, but with greater value if changing its function, which is not intended by the acquirer, should not be recognised according to its "highest and best use".

On a practical point of view, we have identified the following challenges when measuring fair value in the context of a business combination:

- Assessing the fair value of contingent consideration is particularly challenging. Contingent consideration normally reflects the fact that the acquirer is only willing to pay what he obtains, and that the acquirer and the seller have divergent views regarding the fair value of the acquiree. In other words, contingent consideration is generally used to manage the uncertainties or disagreements related to the fair value of the acquiree. In that case, measuring the fair value of the contingent consideration could be seen as a never-ending iterative calculation.

  In certain industries, such as the pharmaceutical industry, the payment may be contingent on a specific asset (e.g. a government approval for a drug).

  When there are significant uncertainties about the outcome, the accounting treatment prescribed by IFRS 3 is difficult to explain, as the remeasurement of the liability is not matched / reflected in the value of the intangible asset or the goodwill.

- The assumed financial liabilities' fair value also raise a problem of which credit risk it should represent (i.e. the acquiree as a standalone entity, the acquirer or the new group) and how it should be determined (i.e. should it take into account any guarantees, the legal framework of the acquisition, ...)

- Measuring the fair value of the pre-existing interest in step acquisitions, the non-controlling interests when control is obtained or the remaining interests when losing control is both difficult and judgmental, due to the existence of a control premium and questions regarding the unit of account.

  In that respect, we regret that IFRS 13 does not allow to measure a block of interests as a whole if the underlying shares are quoted on an active market.
**Question 4**

(a) *Do you find the separate recognition of intangible assets useful? If so, why? How does it contribute to your understanding and analysis of the acquired business? Do you think changes are needed and, if so, what are they and why?*

(b) *What are the main implementation, auditing or enforcement challenges in the separate recognition of intangible assets from goodwill? What do you think are the main causes of those challenges?*

(c) *How useful do you find the recognition of negative goodwill in profit or loss and the disclosures about the underlying reasons why the transaction resulted in a gain?*

We generally believe that the separate recognition of intangible assets is useful, as it enables users to better understand the business acquired. It also allow to properly account for subsequent sale (or consumption) of these intangible assets.

This said, this question is largely linked to the accounting treatment of goodwill (see question 5), and the debate about impairment versus amortisation (and impairment).

Also, this question relates to the valuation of intangibles, which can be both difficult and costly.

In this regard, we particularly question the relevance of recognising separately non-contractual customer relationships (not to mention the difficulty of measuring this element). We are not convinced that these customer relationships are consistent with the recognition criteria in IFRS 3.

Regarding negative goodwill, we believe that the systematic recognition in profit and loss at the time the acquirer obtains control is not always justified. Of course, this appears logical in the case of a true bargain purchase (such as when the vendor is compelled to sell, at short notice).

However, a negative goodwill is frequently justified by future restructuring expenses, or future operating losses to be incurred before restoring the profitability of the acquiree, that the acquirer cannot account for at acquisition date. In this case, recognising the negative goodwill in profit and loss does not appear to faithfully represent the economics of the transaction.

Sometimes, negative goodwill could also arise from IFRS 13 measurements of acquired assets, according to the “highest and best use” principle, without having considered the acquirer’s objectives. We do not believe that accounting for a profit in that case is relevant.

Negative goodwill is even more counter-intuitive when it is increased by choosing to measure NCIs at fair value (i.e. when the fair value of NCIs is lower than their share in the fair value of the net assets of the acquiree).
Question 5

(a) How useful have you found the information obtained from annually assessing goodwill and intangible assets with indefinite useful lives for impairment, and why?

(b) Do you think that improvements are needed regarding the information provided by the impairment test? If so, what are they?

(c) What are the main implementation, auditing or enforcement challenges in testing goodwill or intangible assets with indefinite useful lives for impairment, and why?

Conceptually, non-amortization of goodwill initially appeared preferable as it avoided the need to determine an arbitrary amortization period.

However, acquired goodwill is replaced over time by internally generated goodwill, which clearly raises the question of the conceptual justification of the current accounting treatment.

As no accounting treatment is perfect, one could take into account practical considerations.

On a practical basis, the non-amortization of goodwill has clearly put more pressure on impairment testing. We understand from our discussions with analysts that they do not find the information obtained from annual impairment tests useful and relevant:

- They believe that the recognition of impairment losses always arrives late, and that this information has only a confirmatory value of what is already reflected in market prices;
- Impairments tend to be seen as “clean-up” expenses that are frequently recorded when management is changed, and that should have been recognized before.

Moreover, the allocation of goodwill to CGUs (or groups of CGUs) and the level at which goodwill is tested for impairment leaves room for structuring and offsetting recognised goodwill from an acquisition against unrecognised internally generated goodwill.

Analysts have expressed their interest in understanding the objectives of the management when entering into a business combination, and the expected payback period. They see an amortisation of goodwill over this expected payback period as a useful information in terms of stewardship.

Considering the controversial outcome of impairment testing and the current debate on the relevance of goodwill amortisation raised by some standard setters including FASB, we believe this issue is worth being considered again by the IASB.
Question 6

(a) How useful is the information resulting from the presentation and measurement requirements for NCIs? Does the information resulting from those requirements reflect the claims on consolidated equity that are not attributable to the parent? If not, what improvements do you think are needed?

(b) What are the main challenges in the accounting for NCIs, or auditing or enforcing such accounting? Please specify the measurement option under which those challenges arise.

To help us assess your answer better, we would be grateful if you could please specify the measurement option under which you account for NCIs that are present ownership interests and whether this measurement choice is made on an acquisition-by-acquisition basis.

Even though the full goodwill method can be seen as more conceptually robust, as it is consistent with the reporting entity approach and leads to the recognition in full of all assets of the acquiree, including goodwill, the fact that goodwill is a residual asset clearly raises several problems.

As explained in question 3, measuring NCIs at fair value is a difficult area, especially when the shares are not traded. Both economically and conceptually, measuring NCIs on a proportionate basis of a price paid for the acquisition is not satisfying, as it does not take into account any control premium paid, or whether synergies will benefit to the acquiree or to fully owned subsidiaries.

Neither the full goodwill method nor the partial goodwill method are satisfactory regarding the accounting for subsequent changes in ownership without loss of control:

- Under the partial goodwill method, the goodwill is consistent with interests held by the Group only on acquisition date. Any subsequent increase or decrease of ownership interest would break the link between goodwill and ownership. This also raises the question of impairment testing, and how to apply the “gross-up method” when ownership interest has changed since acquisition date. Illustrative guidance on that matter would be welcome.

- Under the full goodwill method, and for the same reasons as those explained above regarding the fair value of NCIs, it is difficult to measure the amount of goodwill to be transferred to or from NCIs on change of ownership interest, as a proportionate basis is not necessarily relevant.

We believe that these concerns arise from the new requirements introduced by IFRS 3 R / IAS 27 R regarding the accounting for transactions with owners of NCIs. These requirements are often seen by users as irrelevant or counter-intuitive, since they prevent from recognising the actual performance of an investment in a subsidiary. Indeed:

- Accounting for part of an additional investment (when acquiring NCIs) as a deduction in equity hides the actual amount of the total investment in the subsidiary. Therefore, when control is lost, the profit or loss impact does not portray the difference between the price paid by the Group and the price received on loss of control.
– Any gain on subsequent sale of interests to NCIs is never recognised in profit or loss. The only gain that will be recognised is measured on the basis of the remaining interests in the subsidiary just before control is lost, hiding the overall performance of the investment.

Moreover, accounting for an acquisition of NCIs relating to a subsidiary that has been largely developed since obtaining control triggers the recognition of a decrease in group equity. This apparent loss of wealth for owners of the reporting entity is totally counter-intuitive, as it results from the unrecognised value creation of the subsidiary.

Regarding the choice that exists for each business combination between full and partial goodwill, we have noted that both methods are used in practice.

Even though one could regret the existing choice, and the fact that it is an acquisition-by-acquisition choice, we believe that it is a good compromise, as it allows an entity to limit the unsatisfactory effects of IAS 27 R regarding the accounting for subsequent transactions on NCIs. For example, an entity that intends to purchase NCIs in the future will probably opt for the full goodwill method, since it would reduce the equity impact of the future transaction.

**Question 7**

(a) How useful do you find the information resulting from the step acquisition guidance in IFRS 3? If any of the information is unhelpful, please explain why.

(b) How useful do you find the information resulting from the accounting for a parent’s retained investment upon the loss of control in a former subsidiary? If any of the information is unhelpful, please explain why.

First of all, we consider that the accounting requirements of previous IFRS 3 for step acquisitions were overly complex, requiring to implement a separate calculation of goodwill for each transaction in which the entity acquired an interest in the acquiree before obtaining control.

The new requirements in IFRS 3 R have released preparers from this burden. Nevertheless, although the new accounting treatments applied on step acquisition and loss of control may be understood conceptually (mostly by accounting experts), they are largely counter-intuitive for the vast majority of users and preparers.

Indeed it is generally difficult to explain to users the profit or loss effect on the previously held interests when obtaining control of the acquiree, or on the investment retained in the former subsidiary (after control is lost). Recognising a profit of loss on interests which are not part of the transaction is often considered as being irrelevant, all the more when control is obtained or lost without any transaction (e.g. activation or lapse of certain rights such as potential voting rights, reassessment of control under IFRS 10).
The rationale for this accounting requirement is therefore not understood, and does not seem to users consistent with the fact that actual transactions where the percentage of interest decreased (while the group retained the control) never impact the profit or loss (see question 6).

**Question 8**

(a) Is other information needed to properly understand the effect of the acquisition on a group? If so, what information is needed and why would it be useful?

(b) Is there information required to be disclosed that is not useful and that should not be required? Please explain why.

(c) What are the main challenges to preparing, auditing or enforcing the disclosures required by IFRS 3 or by the related amendments, and why?

Regarding pro forma information, and assuming that users believe that the information provided is useful, the Board could provide guidance on the adjustments required (if any) in combining the results of the acquirer and the acquiree for the period before the acquisition.

IFRS 3 R does not require any more to disclose the historical book value of the acquiree’s assets and liabilities and the adjustments made due to purchase accounting. We believe that this information is useful.

**Question 9**

Are there other matters that you think the IASB should be aware of as it considers the PiR of IFRS 3?

The IASB is interested in:

(a) understanding how useful the information that is provided by the Standard and the related amendments is, and whether improvements are needed, and why;

(b) learning about practical implementation matters, whether from the perspective of applying, auditing or enforcing the Standard and the related amendments; and

(c) any learning points for its standard-setting process.

We would like to point out two aspects:

- First, the accounting treatment for contingent consideration. The systematic accounting for the subsequent changes in profit and loss, with no corresponding changes in the value of
assets and liabilities, is sometimes counter-intuitive, and does not faithfully represent the economics of the transaction (see comments in question 3).

The Board could revisit the accounting for subsequent changes in contingent consideration in some specific instances.

- Second, contingent consideration that is conditioned by the presence of the seller. The IFRS Interpretations Committee has considered that current IFRS 3 should be read as a rule rather than as a principle. As a consequence, there is no room for judgment, and the accounting outcome may not always faithfully represent the transaction.

We believe that the Board should clarify the wording in order to introduce a rebuttable presumption that contingent consideration that is conditioned by the presence of the seller is post-acquisition employee compensation (i.e. this rebuttable presumption could be reversed, based on facts and circumstances).

**Question 10**

From your point of view, which areas of IFRS 3 and related amendments:

(a) represent benefits to users of financial statements, preparers, auditors and/or enforcers of financial information, and why;

(b) have resulted in considerable unexpected costs to users of financial statements, preparers, auditors and/or enforcers of financial information, and why; or

(c) have had an effect on how acquisitions are carried out (for example, an effect on contractual terms)?

Globally, the increased use of fair value, together with the requirement to determine fair value based on IFRS 13 guidance, have increased the accounting burden for preparers as well as for auditors.

The uncertainties around what constitutes a business, combined with the significant accounting differences that exist between the acquisition of assets and a business combination, have also put more pressure on preparers.