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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comments on Proposed Amendments to IFRS 3 “Business Combinations”

Dear Sir or Madam;

We, the Japanese Institute of Certified Public Accountants, are pleased to comment on proposed amendments to IFRS 3 “Business Combinations”.
We disagree with the main part of the Exposure Draft because we are in favor of the parent entity view and the purchased goodwill approach. Our responses to questions asked in Invitation to Comments are as follows:

Question 1 – Objective, definition and scope

We disagree with the statement in the proposed objective that the acquirer measures and recognizes the acquiree, as a whole, at the fair value as of the acquisition date. This statement seems to imply that goodwill attributable to non-controlling interests should be measured and recognized at fair value. However, we believe that only goodwill attributable to controlling interest should be recognized, for the reasons mentioned in the response to Question 3 below.

Question 3 – Measuring the fair value of the acquiree

We disagree with recognizing goodwill attributable to non-controlling interests and support the purchased goodwill method that recognizes only goodwill attributable to controlling interest, as under the existing Standard. The reasons are as follows:

(a) In our understanding, the proposed approach regards goodwill as equivalent to identifiable assets and recognizes it at a hundred percent of its fair value. However, goodwill has basically different nature from identifiable assets in that it represents the portion of the consideration in a business combination that cannot be attributed to identifiable assets and liabilities. Considering such difference in nature, we believe that difference of accounting treatment between goodwill and identifiable assets under the existing Standard is reasonable and appropriate.

(b) Goodwill attributable to non-controlling interests cannot be considered as an asset controlled by the owners of the parent entity, because goodwill is not disposable separately from other assets. Furthermore, from the standpoint of minority shareholders of a subsidiary, goodwill attributable to non-controlling interest is internally generated goodwill. Therefore, we believe that recognizing goodwill attributable to non-controlling interests is not relevant to the purpose of financial reporting from the standpoint of either the parent entity or the minority shareholders of the subsidiary.

(c) There is serious concern about reliability of measurement of the full goodwill.

Question 4 – Measuring the fair value of the acquiree

As mentioned in response to Question 3, we disagree with measurement of an acquiree as a whole. Furthermore, in our opinion, guidance for measuring the fair value of the acquiree does not correspond sufficiently to concerns about reliability of measurement.

In particular, it does not provide clear guidance on measurement in the following cases:

- The acquiree is a private entity and it is impracticable to measure the fair value at the time before the acquisition was commenced.
- The acquiree is a public entity but it is impractical to isolate the effect of the acquisition deals by the acquirer from the fair value of the acquiree.

Question 5 – Measuring the fair value of the acquiree

We believe that equity interests issued by the acquirer as consideration in a business combination should be measured based on the market price for a reasonable period before and after the date that the terms of the acquisition are agreed to and announced. Measuring at the fair value as of the acquisition date might result in reflecting fluctuations in the market price of the acquirer's shares due to the factors unrelated to the acquiree. Such consequence would not adequately reflect the decision-making of exchange of equivalents at the time of the agreement.

Question 7 – Measuring the fair value of the acquiree

We disagree with the proposal that acquisition-related costs should be accounted for separately from the business combination. We believe that the fees paid to external advisors that are directly attributable to the acquisition should be accounted for as a part of the cost of the acquisition, considering consistency with IAS 2 “Inventories” and IAS 16 “Property, Plant and Equipment”, both of which provides that direct costs attributable to acquisition of assets should be included in the cost of the assets.

Question 9 – Measuring and recognizing the assets acquired and the liabilities assumed

We suggest that the final standard should retain the guidance as provided in paragraph B16 (d) of the existing IFRS 3. If fair value of inventories is to be interpreted as exit value such as net realizable value, profit or loss in the year immediately after the acquisition might be distorted because additional sales resulted from acquired inventories would yield no profits.

Question 10 – Additional guidance for applying the acquisition method to particular types of business combinations

We disagree with the proposal that the acquirer should recognize in profit or loss any gain or loss on previously acquired non-controlling equity investments on the date it obtains control of the acquiree. We consider that an equity investment is continuing even if it changed from non-controlling to controlling and it is not appropriate to recognize gain or loss on continuing investments in profit or loss. We suggest that the aggregate of the original costs of the investment should be regarded as the cost of acquisition and that gain or loss previously recognized in equity (in case of available-for –sale equity securities) should be reversed.

Very truly yours,

Satoshi Komiyama
Executive Board Member—Accounting Standards
The Japanese Institute of Certified Public Accountants