

19 September 2008

Our ref: ICAEW Rep 101/08



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

Mr Stig Enevoldsen
Chairman
European Financial Reporting Advisory Group
13-14 Avenue des Arts
B-1210 Brussels

By email: commentletter@efrag.org

Dear Stig

**DRAFT ENDORSEMENT ADVICE ON, AND INITIAL ASSESSMENT OF THE
COSTS AND BENEFITS OF,
(a) IFRS 3 (REVISED) BUSINESS COMBINATIONS AND
(b) THE AMENDMENTS TO IAS 27 CONSOLIDATED AND SEPARATE
FINANCIAL STATEMENTS**

The Institute of Chartered Accountants in England and Wales welcomes the opportunity to respond to EFRAG's Invitations to Comment on its draft endorsement advice on, and initial assessment of the costs and benefits of,

- (a) IFRS 3 (Revised) *Business Combinations* and
- (b) Amendments to IAS 27 *Consolidated and Separate Financial Statements*.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world-leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries.

With regard to the draft endorsement advice, we are satisfied that:

- (a) the revised standard and the amended standard meet the technical criteria for endorsement by the EU; and
- (b) the benefits to be derived from applying the revised and amended standards will exceed any costs involved.

We therefore fully support endorsement.

Our responses to the relevant questions raised by EFRAG in relation to the costs and benefits are attached as an appendix to this letter.

Please contact me if you would like to discuss any of the points raised in this response.

Yours sincerely

A handwritten signature in black ink that reads "Desmond Wright". The script is cursive and fluid, with the first letters of each word being capitalized and slightly larger than the rest of the letters.

Desmond Wright
Senior Manager, Corporate Reporting
T +44 (0)20 7920 8527
E desmond.wright@icaew.com

INVITATION TO COMMENT ON EFRAG'S INITIAL ASSESSMENT OF THE COSTS AND BENEFITS OF

- (a) IFRS 3 (REVISED) BUSINESS COMBINATIONS AND**
- (b) THE AMENDMENTS TO IAS 27 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

Comments should be sent to commentletter@efrag.org or uploaded via our website by 19 September 2008

1 Please provide the following details about yourself:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:**

The Institute of Chartered Accountants in England and Wales

- (b) Are you/ls your organisation or company a:**

Other - professional accountancy body

- (c) Please provide a short description of your activity/ the general activity of your organisation or company:**

See covering letter.

- (d) Country where you/your organisation or company is located:**

United Kingdom.

- (e) Contact details including e-mail address:**

See covering letter; desmond.wright@icaew.com

IFRS 3 (Revised) Business Combinations

A brief summary of the changes to IFRS that IFRS 3R makes is set out in Appendix 2.

- 2 EFRAG is carrying out an assessment of the costs and benefits that will arise for preparers and for users to implement IFRS 3R, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used in completing the assessment.**

The results of EFRAG's initial assessment are set out in Appendix 3. In summary, EFRAG's initial assessment of IFRS 3R is that:

- (a) reading and understanding the amendments are likely to have no significant cost or benefit implications;**
- (b) the additional disclosures required are likely to provide benefits that exceed the costs involved;**
- (c) the transition requirements are likely to result in some increased costs for preparers and users, but those costs are not likely to be significant;**

- (d) the changes in the way contingent consideration is accounted for (Amendment 1) is likely to result in costs and benefits that will probably largely balance out;
- (e) the change in the way acquisition-related costs are accounted for (Amendment 2) is unlikely to have significant cost or benefit implications;
- (f) the treatment of step acquisitions (Amendment 3) is likely to result in a cost saving for preparers and benefits (but no costs) for users;
- (g) the required accounting treatment of partial acquisitions (ie acquisitions of less than 100 percent or Amendment 4) is likely to result in costs that exceed the benefits that will arise from this accounting treatment;
- (h) the various issues relating to the use of fair value as a measurement attribute (Amendment 6) seem likely to involve no significant cost or benefit implications;
- (i) the changes to the scope (Amendment 7) are likely to result in benefits that exceed the overall costs involved; and
- (j) the fact that IFRS and US GAAP will now be substantially the same will result in significant benefits for users.

Do you agree with this initial assessment?

Yes

If you do not, please explain why you do not and (if possible) explain what weighting you believe is appropriate.

Not applicable.

- 3 EFRAG has not to date been able to reach a conclusion on the revised definition of a business (Amendment 5).**

This issue is discussed further in paragraphs 47-52 of Appendix 3.

EFRAG is still assessing what the practical implications of the change in the definition of a business might be and would be particularly interested in the views of constituents. Do you think the change in the definition of a business is likely to have an insignificant impact on costs and benefits to preparers and users?

We have no comment on this issue

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be (ie a description of the type(s) of cost involved, and an indication of what you estimate the costs to be). Please also tell us the turnover of your company to enable to give us a basis for judging the significance of the costs you describe.

Not applicable.

- 4 EFRAG's initial assessment is that the greatest costs and/or benefits arise from the changes described in (f), (g) and (j) —and maybe in Amendment 5 (Definition of a business)—and that, subject to the outcome of the conclusion reached on this amendment, the net benefits**

arising from (f) exceed the net costs arising from (g), even before the benefits arising from (j) are taken into account.

Do you agree with this initial assessment?

Yes

If you do not, please explain why you do not and (if possible) explain what weighting you believe is appropriate.

Not applicable.

- 5 EFRAG believes (as explained in Appendix 3) that, when the overall position of preparers and users is taken into account, the benefits that will arise from implementing IFRS 3R will exceed the costs involved.**

Do you agree with this assessment?

Yes

If you do not, please explain why you do not and what you think the implications should be for EFRAG's assessment on the costs and benefits of implementing IFRS 3R in the EU?

Yes

- 6 EFRAG is not aware of any factors other than those mentioned in Appendix 3 that should be taken into account in reaching a decision on EFRAG's initial assessment of the costs and benefits of IFRS 3R.**

Do you agree that there are no other factors?

Yes

If you do not, please explain why you do not and what you think the implications should be for EFRAG's assessment on the costs and benefits of implementing IFRS 3R?

Not applicable.

Amendments to IAS 27 Consolidated and Separate Financial Statements
A brief summary of the changes to IFRS that IAS 27A makes is set out in Appendix 4.

- 7 EFRAG is carrying out an assessment of the costs and benefits that will arise for preparers and for users to implement IAS 27A, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used in completing the assessment.**
The results of EFRAG's initial assessment are set out in Appendix 5. In summary, EFRAG's initial assessment of IAS 27A is that:

- (a) reading and understanding the amendments are likely to have no significant cost or benefit implications;**
- (b) the transition requirements are likely to result in no significant cost or benefit implications;**

- (c) the new requirements concerning the accounting treatment of changes in ownership interest that do not result in control of another entity being lost (Amendment 1) are likely to result in no significant additional costs but significant benefits for users;
- (d) the new requirements for changes in ownership interest that result in control of another entity being lost (Amendment 2) are likely to result in no significant additional costs and no significant benefits for users; and
- (e) the amended requirements concerning the accounting treatment of losses attributable to NCI (Amendment 3) are likely to have no significant cost or benefit implications.

Do you agree with this assessment?

Yes

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be (ie a description of the type(s) of cost involved, and an indication of what you estimate the costs to be). Please also tell us the turnover of your company to give us a basis for judging the significance of the costs.

Not applicable.

- 8 EFRAG believes (as explained in Appendix 5) that the only Amendment that is likely to have a significant effect is Amendment 1, which is expected to result in significant benefits for users; and that therefore when the overall position of preparers and users is taken into account, the benefits that will arise from implementing IAS 27A will exceed the costs involved.**

Do you agree with this assessment?

Yes

If you do not, please explain why you do not and what you think the implications should be for EFRAG's assessment on the costs and benefits of implementing IAS 27A?

Not applicable.

- 9 EFRAG is not aware of any factors other than those mentioned in Appendix 5 that should be taken into account in reaching a decision on EFRAG's initial assessment of the costs and benefits of IAS 27A.**

Do you agree that there are no other factors?

Yes

If you do not, please explain why you do not and what you think the implications should be for EFRAG's assessment on the costs and benefits of implementing IAS 27A?

Not applicable.

© The Institute of Chartered Accountants in England and Wales 2008. All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is reproduced accurately and not used in a misleading context;
- the source of the extract or document, and the copyright of The Institute of Chartered Accountants in England and Wales, is acknowledged; and
- the title of the document and the reference number (ICAEW Rep 101/08) are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

www.icaew.com