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Business Combinations - International Coverage

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International Convergence of IFRS 3 and FASB 141, Business Combinations

In 2001, the FASB issued SFAS 141. Three years later, the IASB followed with IFRS 3. Having been working on convergence since 2004, in January 2008 the FASB and IASB announced revisions to both standards, designed at their ultimate convergence. SFAS 141 (R) becomes effective from 15 December 2008 and IFRS 3 (R) from 1 July 2009.

Unsurprisingly, it is the older, US, standard which received most revisions. The main changes relate to recognition of assets at fair value, restructuring costs, business combinations achieved in stages and negative goodwill which should now be taken to profit and not used to reduce the fair values of assets acquired.

However, the most fundamental change affects the biggest number: goodwill. In the first year of IFRS 3 adoption, goodwill accounted for 53%, £21bn, of acquisition values for the FTSE 100 and for the S&P 100 in 2007, 48%, or \$490bn. Under FASB 141 (R), the factors that constitute goodwill are now required to be disclosed, as has always been the case under IFRS 3. Such factors include intangible assets not separately identifiable, such as workforce, synergies of cost and synergies of scale. Financial regulators are making this a priority area for scrutiny, as it presents a significant opportunity for improved reporting.

These changes are a positive step forward towards the inevitable global convergence of accounting standards, although they still have limitations. However, a platform is being built for more credible financial reporting and this will hopefully facilitate further changes in the future.

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