Date
7 November 2005

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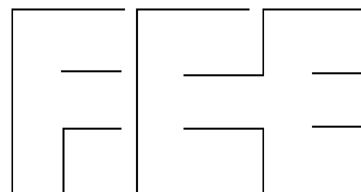


Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street, 1st floor
GB – LONDON EC4M 6XH

Email: commentletters@iasb.org.uk

Dear Sir David,

Re: IASB Exposure Drafts of Proposed Amendments to IFRS 3 Business Combinations, Proposed Amendments to IAS 27 *Consolidated and Separate Financial Statements a*nd IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS *19 Employee Benefits*

FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its comments on IASB Exposure Drafts of Proposed Amendments to IFRS 3 Business Combinations, Proposed Amendments to IAS 27 Consolidated and Separate Financial Statements and IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits.

FEE as a founding organisation of EFRAG has also contributed to the EFRAG consultation process by submitting our views on their preliminary comments. We refer to the EFRAG preliminary comments (draft letter of 5 August 2005) where we are in agreement with their comments; where we are in disagreement our own views are put forward. However, we have not considered the final EFRAG submission to IASB in our own response.

Although we support the overall objective of international convergence, we have some major concerns on some of the proposals included in the IASB Exposure Drafts, which we outlined in the following paragraphs and develop in our response to the IASB particular questions raised (see appendix 1-4).

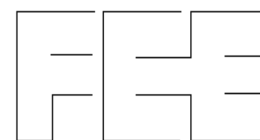
1. Process of the project and changes to concepts

Our main concern is that IASB has not followed its due process according to the recent revision of its constitution, by not publishing first a discussion paper and by not performing field-testing. There has been no opportunity to understand the issues underlying the significant changes proposed before the publication of this exposure draft.

Changes to concepts should be developed and discussed in the context of the revision of the Framework as a whole in a discussion paper prior or in parallel to introducing them in exposure draft form. We acknowledge that the evolution of concepts is an interrelated process between standards and the Framework but we believe the projects of IASB could be more coherent in their development. The Board should also clarify how they intend to modify the Framework.

We also feel that introducing such significant proposals to modify the standards just after the promised stable platform and the adoption of IFRS by listed entities in Europe is unacceptable. This is not a convergence matter but dealing with it is likely to take up the time of preparers, users and regulators. This will distract attention from higher priority issues.

 Association Internationale reconnue par Arrêté Royal en date du 30 décembre 1986



2. Use of Fair value

We agree with EFRAG that benefits of such an approach are not convincing and do not exceed the costs incurred. There are major practical difficulties in measuring the total fair value of the acquiree when the transaction is less than 100%. Fair value is useful for users if it helps to predict future cash flow. It is known that financial analysts do not use goodwill figures in their analysis of financial statements. So we question why preparers should put so much effort into valuing goodwill at fair value and auditors having so much difficulty to verify the figures when it will not be used by users. It would be beneficial to enquire as to the benefits of fair valuing goodwill for users.

Furthermore, we agree with EFRAG that the increasing use of fair value requires more judgement and is not proved to be more relevant and reliable information.

We would prefer to wait for such proposal after the issuance of a discussion paper on the overall concept of measurement.

3. Objectives of the Exposure Draft

We share EFRAG's concerns that the objective of requiring fair value measurement of the acquiree as a whole may not be achievable in practice. We share the dissenting Board members views (AV4) that the total value of the acquired business is an extremely subjective measure, based upon the acquirer's judgement of the potential returns that it will generate. These synergies are specific to the combination and there will not be an observable fair value in the market place.

We are also not convinced that there are valid reasons for modifying IFRS 3 and we have not found any in the Exposure draft. The Board should make clear in the introduction to the Exposure draft why IFRS 3 was not achieving the objective of comparability, transparency, relevance and reliability.

We would prefer that further research is undertaken before concluding that applying one single method of accounting is valid for all types of combinations. However, we accept that applying a single method of accounting will increase comparability and transparency and it will also ease the application in practice.

4. Scope and definition of a Business Combination

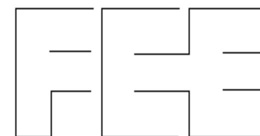
We agree with EFRAG that there is an inconsistency between the scope of the ED ('all business combinations') and the definition of business combinations ('acquirer obtains control'). According to this definition, mergers would not be within the scope of this exposure draft as there is normally no acquirer in a true merger. However, BC 32 seems to contradict the definition proposed. Also, the paragraph 10 is redundant since paragraph 4 mentions that a business combination includes an acquirer.

We accept that one accounting method – the acquisition method – for all business combinations will result in principle in a faithful representation of the reality. However, we encourage the Board to continue research on an appropriate accounting method for combinations where entities are brought together without one entity obtaining control over the other entities, for example in combinations by contract alone.

5. Definition of a business

We share EFRAG's concerns about the difference in accounting treatment between acquisitions of group of assets (IAS 16) and business combinations, which creates inconsistency in valuation basis (cost / fair value). For example, we see one inconsistency in the treatment of deferred tax. The acquisition of an individual investment property will not give rise to the recognition of deferred taxes because of the exemption in IAS 12, neither the recognition of a goodwill, whereas if it is a business combination, deferred tax and goodwill figures would be recognised.

Acquisitions of assets and businesses should be accounted for in the same way, at cost, as is the case under the current version of IFRS 3. We prefer the scope not to be extended to acquisition of groups of



assets but the definition of a business should be clearer in order to distinguish between the two transactions.

6. IAS 27 Parent entity approach / Economic entity view

We have doubts that the parent entity perspective need to be changed and we are not convinced of the benefits of the economic entity view. In our view, minority interests are of a different quality of equity, without being a liability. We agree with the alternative view in AV1-AV3. Transactions with minority interest should be reflected on the face of the financial statements because those are prepared for the shareholders of the parent company. We believe that the economic entity view will reduce the usefulness of financial information for the parent entity shareholders, especially with the recognition of the non controlling interest's share of goodwill. The "minority interests" line will usually aggregate interest in a number of different subsidiaries so will not be of use to any particularly minority holder. We favour the current "mixed" approach.

Within the improvement project of IAS 27 in 2002, we accepted that non-controlling interest be classified as equity but there has not been analysis and debate about what is really the nature of non-controlling interest. The consequences of the classification have not been addressed following the improvement project. We would prefer to have such debate prior to accepting the change to economic entity view.

7. Proposed amendments to IAS 37

We fully agree with EFRAG that the change of the probability recognition criterion from recognition to measurement is not in conformity with the Framework. Paragraph 23 of the ED is inconsistent with paragraph 91 of the Framework. The Basis for Conclusions introduces the new concept of "stand-ready" obligation to justify that the changes are in conformity with the Framework. However, this concept was never publicly discussed or exposed. Conceptual change should be addressed in the context of a wide debate on the revision of the Framework.

We agree with the alternative view of the dissenting Board member that the proposals do not provide adequate guidance on when an unconditional obligation should be recognised. Under current IAS 37, the obligating event is not always easy to identity. The new proposal requires recognition of any liability whatever the uncertainty. The conditions for recognition are not clear and we find the examples in the Exposure draft of limited help for situations where the obligation event is not so obvious. The boundaries for judging of the uncertainty of the obligation are difficult to draw and it may lead to different accounting for the same situation. The Exposure Draft does not help to clarify this difficulty.

The measurement proposals introduce a new methodology of measurement for liability. Moreover, these changes are not related to business combinations and could have been proposed later on. The change in recognition criteria will put more pressure on the measurement method for contingent liabilities. One of our main concerns regarding the change in the measurement is the reliability of the measurement. The Board seems to assume that any measure can be reliable.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

David Devlin
President

ED OF PROPOSED AMENDMENTS TO IFRS 3 BUSINESS COMBINATIONS

Question 1—Objective, definition and scope

The proposed objective of the Exposure Draft is:

> …that all business combinations be accounted for by applying the acquisition method. A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses (the acquiree). In accordance with the acquisition method, the acquirer measures and recognises the acquiree, as a whole, and the assets acquired and liabilities assumed at their fair values as of the acquisition date.

The objective provides the basic elements of the acquisition method of accounting for a business combination (formerly called the purchase method) by describing:
(a) what is to be measured and recognised. An acquiring entity would measure and recognise the acquired business at its fair value, regardless of the percentage of the equity interests of the acquiree it holds at the acquisition date. That objective also provides the foundation for determining whether specific assets acquired or liabilities assumed are part of an acquiree and would be accounted for as part of the business combination.
(b) when to measure and recognise the acquiree. Recognition and measurement of a business combination would be as of the acquisition date, which is the date the acquirer obtains control of the acquiree.
(c) the measurement attribute as fair value, rather than as cost accumulation and allocation. The acquiree and the assets acquired and liabilities assumed would be measured at fair value as of the acquisition date, with limited exceptions. Consequently, the consideration transferred in exchange for the acquiree, including contingent consideration, would also be measured at fair value as of the acquisition date.
The objective and definition of a business combination would apply to all business combinations in the scope of the proposed IFRS, including business combinations:
- (a) involving only mutual entities
- (b) achieved by contract alone
- (c) achieved in stages (commonly called step acquisitions)
- (d) in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date.

(See paragraphs 52-58 and paragraphs BC42-BC46 of the Basis for Conclusions.)

Question 1—Are the objective and the definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?

Applying the acquisition method to all business combinations should only be a temporary objective until a solution is developed for combinations where it is not possible to identify an acquirer, for example combinations by contract alone or other true mergers. We urge the Board to continue research on an appropriate accounting method as soon as possible, which will better reflect economic reality of those combinations.

During the interim period, we suggest that the Board provide guidance on how to identify the acquirer in situations of true mergers.

We share EFRAG 's concerns that the objective of measuring and recognising the acquiree as a whole at its fair value is achievable with great practical difficulties. The benefits of such an approach are not convincing and do not surpass the costs incurred.

We are also not convinced that there are valid reasons for modifying IFRS 3 and we have not found any in the Exposure draft. The Board should make clear in the introduction to the Exposure draft why IFRS 3 was not achieving the objective of comparability, transparency, relevance and reliability.

We therefore prefer to keep the cost measurement of business acquisitions under the existing IFRS 3.

We agree with EFRAG that there is an inconsistency between the scope of the ED ('all business combinations') and the definition of business combinations ('acquirer obtains control'). According to this definition, mergers would not be within the scope of this exposure draft as there is normally no acquirer in a true merger. However, BC 32 seems to contradict the definition proposed. Also, the paragraph 10 is redundant since paragraph 4 mentions that a business combination includes an acquirer.

Question 2—Definition of a business

The Exposure Draft proposes to define a *business* as follows: A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing either:
(1) a return to investors, or
(2) dividends, lower costs, or other economic benefits directly and proportionately to owners, members, or participants. [paragraph 3(d)]
Paragraphs A2-A7 of Appendix A provide additional guidance for applying this definition. The proposed IFRS would amend the definition of a business in IFRS 3. (See paragraphs BC34-BC41.)

Question 2—Are the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business? If not, how would you propose to modify or clarify the definition or additional guidance?

We agree with EFRAG' draft comments that the new definition would broaden the scope of situations that could satisfy as a business. Considering the narrow dividing line between the new definition of business and the definition of assets, we share EFRAG's concerns about the difference in accounting treatment between acquisitions of group of assets (IAS 16) and business combinations, which creates inconsistency in valuation basis (cost / fair value). As mentioned in BC41, acquisitions of assets and businesses should be accounted for in the same way; we favour at cost, as it is the case under the current version of IFRS 3. We refer you to our comments in paragraph 5 of the covering letter.

Questions 3-7—Measuring the fair value of the acquiree

Question 3—In a business combination in which the acquirer holds less than 100 per cent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognise 100 per cent of the acquisition-date fair value of the acquiree, including 100 per cent of the values of identifiable assets acquired, liabilities assumed and goodwill, which would include the goodwill attributable to the non-controlling interest? If not, what alternative do you propose and why?

We agree with EFRAG draft comments that the proposed approach is not appropriate for the reasons set out by the dissenting Board members in AV2-AV7. It is very subjective to measure the premium that would have been paid for 100% of the business by another acquirer. There are major practical difficulties in measuring the total fair value of the acquiree when the transaction is less than 100%. We share the views in AV4 that the total value of the acquired business is an extremely subjective measure, based upon the acquirer's judgement

of the potential returns that it will generate. We refer you to our comments in paragraph 2 of the covering letter.

We support EFRAG views that it is important to consider the costs/benefits impact of such proposal. Presenting the value of a total business instead of a share acquired does not outweigh the increasing use of fair value requiring more judgement and resulting in less relevant and reliable information for users.

One of the risks to recognize the 'full' goodwill including the part attributable to the non-controlling interest is to recognize internally generated goodwill of the entity. Goodwill represents a very entity specific amount in excess of the identifiable net assets.

The Exposure Draft proposes that a business combination is usually an arm's length transaction in which knowledgeable, unrelated willing parties are presumed to exchange equal values. In such transactions, the fair value of the consideration transferred by the acquirer on the acquisition date is the best evidence of the fair value of the acquirer's interest in the acquiree, in the absence of evidence to the contrary. Accordingly, in most business combinations, the fair value of the consideration transferred by the acquirer would be used as the basis for measuring the acquisition-date fair value of the acquirer's interest in the acquiree. However, in some business combinations, either no consideration is transferred on the acquisition date or the evidence indicates that the consideration transferred is not the best basis for measuring the acquisition-date fair value of the acquirer's interest in the acquiree. In those business combinations, the acquirer would measure the acquisition-date fair value of its interest in the acquiree and the acquisition-date fair value of the acquiree using other valuation techniques. (See paragraphs 19, 20 and A8-A26, Appendix E and paragraphs BC52-BC89.)

Question 4—Do paragraphs A8-A26 in conjunction with Appendix E provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?

We believe the examples are not helpful to address certain issues, for example potential control premium, situations of non-listed entities where fair value cannot easily be based on quoted market prices. Example 3 only deals with synergies available to the acquirer and not with a potential control premium. In Example 3, we had difficulties to found the basis for determining the fair value of TC, estimated at 121 million.

We agree with EFRAG's draft comments on the appendix E. The fair value concept and the measurement proposals included in this exposure draft may change subject to the finalisation of FASB project on measurement. The due process should be respected by submitting further changes proposed for public comments.

The Exposure Draft proposes a presumption that the best evidence of the fair value of the acquirer's interest in the acquiree would be the fair values of all items of consideration transferred by the acquirer in exchange for that interest measured as of the acquisition date, including:
(a) contingent consideration;
(b) equity interests issued by the acquirer; and
(c) any non-controlling equity investment in the acquiree that the acquirer owned immediately before the acquisition date. (See paragraphs 20-25 and BC55-BC58.)

Question 5—Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree the best evidence of the fair value of that interest? If not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?

We agree with EFRAG draft comments. It should be only a rebuttable presumption that the fair value of the consideration transferred is the best evidence of the fair value of the interest acquired.

The Exposure Draft proposes that after initial recognition, contingent consideration classified as:
(a) equity would not be remeasured.
(b) liabilities would be remeasured with changes in fair value recognised in profit or loss unless those liabilities are in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or [draft] IAS 37 *Non-financial Liabilities.* Those liabilities would be accounted for after the acquisition date in accordance with those IFRSs.
(See paragraphs 26 and BC64-BC89.)

Question 6—Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?

Although we do not favour the approach of fair value measurement of the whole acquiree at the acquisition date, we agree with the principle to re-measure the contingent consideration after acquisition date. However, in out view, the fair value of contingent consideration will be very difficult to determine reliably in practice.

The Exposure Draft proposes that the costs that the acquirer incurs in connection with a business combination (also called acquisition-related costs) should be excluded from the measurement of the consideration transferred for the acquiree because those costs are not part of the fair value of the acquiree and are not assets. Such costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; the cost of issuing debt and equity instruments; and general administrative costs, including the costs of maintaining an internal acquisitions department. The acquirer would account for those costs separately from the business combination accounting. (See paragraphs 27 and BC84-BC89.)

Question 7—Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?

We fully support EFRAG' draft comments to question 7. We do not agree that the acquisition costs are excluded from the consideration transferred because the proposed principle is inconsistent with the treatment of direct acquisition related cost in other existing standards where the direct cost forms part of the carrying amount of the asset acquired. We prefer the existing cost approach in IFRS 3, which is consistent with other IFRS.

Questions 8 and 9—Measuring and recognising the assets acquired and the liabilities assumed

The Exposure Draft proposes that an acquirer measure and recognise as of the acquisition date the fair value of the assets acquired and liabilities assumed as part of the business combination, with limited exceptions. (See paragraphs 28-41 and BC111-BC116.) That requirement would result in the following significant changes to accounting for business combinations:
(a) Receivables (including loans) acquired in a business combination would be measured at fair value. Therefore, the acquirer would not recognise a separate valuation allowance for uncollectible amounts as of the acquisition date.

(b) An identifiable asset or liability (contingency) would be measured and recognised at fair value at the acquisition date even if the amount of the future economic benefits embodied in the asset or required to settle the liability are contingent (or conditional) on the occurrence or non-occurrence of one or more uncertain future events. After initial recognition, such an asset would be accounted for in accordance with IAS 38 *Intangible Assets* or IAS 39 *Financial Instruments: Recognition and Measurement,* as appropriate, and such a liability would be accounted for in accordance with [draft] IAS 37 or other IFRSs as appropriate.

Question 8—Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you propose?

We support EFRAG draft response and we generally agree with the proposals that all assets acquired and liabilities assumed should be valued at fair value at the date of acquisition.

However, we disagree that the probability criterion for recognising assets and liabilities has been abandoned and we consider that probability should be kept as a recognition criterion. We also would like to raise the difficulties of determining the triggering event and the reliable measure for unconditional obligation. We refer to our answers to questions 2 and 6 of the amendments of IAS 37. We concur with the view of the dissenting Board member (AV19) that removing the reliable measurement recognition criterion may create inconsistencies in the reliability of components of financial statements.

The Exposure Draft proposes limited exceptions to the fair value measurement principle. Therefore, some assets acquired and liabilities assumed (for example, those related to deferred taxes, assets held for sale, or employee benefits) would continue to be measured and recognised in accordance with other IFRSs rather than at fair value. (See paragraphs 42-51 and BC117-BC150.)

Question 9—Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?

We agree that the exceptions are appropriate.

Questions 10-12—Additional guidance for applying the acquisition method to particular types of business combinations

The Exposure Draft proposes that, for the purposes of applying the acquisition method, the fair value of the consideration transferred by the acquirer would include the fair value of the acquirer's non-controlling equity investment in the acquiree at acquisition date that the acquirer owned immediately before the acquisition date. Accordingly, in a business combination achieved in stages (step acquisition) the acquirer would remeasure its non-controlling equity investment in the acquiree at fair value as of the acquisition date and recognise any gain or loss in profit or loss. If, before the business combination, the acquirer recognised changes in the value of its non-controlling equity investment directly in equity (for example, the investment was designated as available for sale), the amount that was recognised directly in equity would be reclassified and included in the calculation of any gain or loss as of the acquisition date. (See paragraphs 55, 56 and BC151-BC153.)

Question 10—Is it appropriate for the acquirer to recognise in profit or loss any gain or loss on previously acquired non-controlling equity investments on the date it obtains control of the acquiree? If not, what alternative do you propose and why?

We disagree with the proposal to recognise in profit or loss any gain or loss on previously acquired non-controlling investment because the transaction is on one's own assets. We would agree that any loss arising from evidence of impairment on the carrying value of the investment is recognised in profit or loss in accordance with IAS 38. However, a gain resulting from an enhancement of the shareholders' interest should not be realised and should be included in equity as revaluation surplus.

We regard this revaluation of previously acquired goodwill as in contradiction with IAS 38 which forbids the revaluation of internally developed goodwill. We also question whether the last sentence of paragraph 56 implies that the non-controlling equity investment is derecognised from the assets of the acquirer. Under IAS 39, cumulative gain or loss previously recognized in equity is recognised in profit or loss on derecognition of a financial asset. We suggest the Board to clarify this issue.

The Exposure Draft proposes that in a business combination in which the consideration transferred for the acquirer's interest in the acquiree is less than the fair value of that interest (referred to as a bargain purchase) any excess of the fair value of the acquirer's interest in the acquiree over the fair value of the consideration transferred for that interest would reduce goodwill until the goodwill related to that business combination is reduced to zero, and any remaining excess would be recognised in profit or loss on the acquisition date.
(See paragraphs 59-61 and paragraphs BC164-BC177.)
However, the proposed IFRS would not permit the acquirer to recognise a loss at the acquisition date if the acquirer is able to determine that a portion of the consideration transferred represents an overpayment for the acquiree. The boards acknowledge that an acquirer might overpay to acquire a business, but they concluded that it is not possible to measure such an overpayment reliably at the acquisition date. (See paragraph BC178.)

Question 11—Do you agree with the proposed accounting for business combinations in which the consideration transferred for the acquirer's interest in the acquiree is less than the fair value of that interest? If not, what alternative do you propose and why?

We share EFRAG's draft comments on the premature changes in measurement basis to fair value before undertaking comprehensive analysis and debate about it. BC 164 to BC 177 illustrates the limitation of such radical new direction in measurement of acquisition at fair value and contradicts the assertion that goodwill meets the definition of an asset.

We support the limitation in the recognition of the goodwill by any excess of the fair value of the acquiree over the fair value of the consideration transferred. However, we disagree to recognise in profit or loss any remaining excess. As it is the practice in current IFRS 3, it is preferable to reduce intangible assets recognised at the acquisition date. As stated in our response to question 10, we disagree with the recognition of immediate gain at acquisition.

Question 12—Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date? If so, in what circumstances?

We support EFRAG's draft comments that cases of overpayment exist. If the Board believes that fair value can be measured reliably in a business combination, we find it strange that BC178 preclude from recognition of an immediate loss of an overpayment. The loss will only arise when testing for impairment.

We want to raise to your attention that paragraph A62 seems to contradict the non recognition of loss in case of overpayment. It states that the goodwill allocated to the acquirer shall not exceed the goodwill calculated under paragraph 49. We understand from this that the situation of an overpayment is not possible. We ask the Board to clarify this contraction.

Question 13—Measurement period

The Exposure Draft proposes that an acquirer should recognise adjustments made during the measurement period to the provisional values of the assets acquired and liabilities assumed as if the accounting for the business combination had been completed at the acquisition date. Thus, comparative information for prior periods presented in financial statements would be adjusted, including any change in depreciation, amortisation or other profit or loss effect recognised as a result of completing the initial accounting. (See paragraphs 62-68 and BC161-BC163.)

Question 13—Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?

We agree with IASB proposal and we also regard this as a practical improvement to IFRS 3.

Question 14—Assessing what is part of the exchange for the acquiree

The Exposure Draft proposes that an acquirer assess whether any portion of the transaction price (payments or other arrangements) and any assets acquired or liabilities assumed or incurred are not part of the exchange for the acquiree. Only the consideration transferred by the acquirer and the assets acquired or liabilities assumed or incurred that are part of the exchange for the acquiree would be included in the business combination accounting. (See paragraphs 69, 70, A87-A109 and BC154-BC160.)

Question 14—Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree? If not, what other guidance is needed?

We find the additional guidance provided very helpful. It deals with issues met frequently in practice, for example, how to differentiate between a remuneration payment and a consideration when shareholders remain as employees in the acquired business. We disagree with EFRAG's draft comments.

Question 15—Disclosures

Question 15—Do you agree with the disclosure objectives and the minimum disclosure requirements? If not, how would you propose amending the objectives or what disclosure requirements would you propose adding or deleting, and why?

We provide examples of disclosure that are too extensive and may not meet the cost benefit criterion. We have the following comments on the proposed disclosures:

- Paragraph 72 will be almost impracticable to follow for acquisition after the balance sheet date but before the issuance of the financial statements. It does not appear realistic that all the information necessary for the disclosure would be available to the acquirer in such a short period of time.
- Paragraph 72 e) appears unrealistic, as the information will be very subjective. The fair value of the acquiree depends on the way the acquirer has valued the business. We prefer to keep the current disclosures on the possible synergies expected from the business combination.
- Paragraph 76 b) is very relevant. The amount unpaid out of the contingent consideration provision should be clearly highlighted from other amounts. It should be made clear in the paragraph.
- Paragraph 76 d) requiring disclosures related to previous period's business combination is practically too difficult, especially when entity is constantly growing through acquisitions or business combinations were achieved in stages and the acquisitions are fully integrated in the organisation of the acquirer.

Questions 16-18—The IASB's and the FASB's convergence decisions

The Exposure Draft is the result of the boards' projects to improve the accounting for business combinations. The first phase of those projects led to the issue of IFRS 3 and FASB Statement No. 141. In 2002, the FASB and the IASB agreed to reconsider jointly their guidance for applying the purchase method of accounting, which the Exposure Draft calls the acquisition method, for business combinations. An objective of the joint effort is to develop a common and comprehensive standard for the accounting for business combinations that could be used for both domestic and cross-border financial reporting. Although the boards reached the same conclusions on the fundamental issues addressed in the Exposure Draft, they reached different conclusions on a few limited matters. Therefore, the IASB's version and the FASB's version of the Exposure Draft provide different guidance on those limited matters. A comparison, by paragraph, of the different guidance provided by each board accompanies the draft IFRS. Most of the differences arise because each board decided to provide business combinations guidance that is consistent with its other standards. Even though those differences are candidates for future convergence projects, the boards do not plan to eliminate those differences before final standards on business combinations are issued.

The joint Exposure Draft proposes to resolve a difference between IFRS 3 and SFAS 141 relating to the criteria for recognising an intangible asset separately from goodwill. Both boards concluded that an intangible asset must be identifiable (arising from contractual-legal rights or separable) to be recognised separately from goodwill. In its deliberations that led to SFAS 141, the FASB concluded that, when acquired in a business combination, all intangible assets (except for an assembled workforce) that are identifiable can be measured with sufficient reliability to warrant recognition separately from goodwill. In addition to the identifiability criterion, IFRS 3 and IAS 38 required that an intangible asset acquired in a business combination be reliably measurable to be recognised separately from goodwill. Paragraphs 35-41 of IAS 38 provide guidance for determining whether an intangible asset acquired in a business combination is reliably measurable. IAS 38 presumes that the fair value of an intangible asset with a finite useful life can be measured reliably. Therefore, a difference between IFRS 3 and SFAS 141 would arise only if the intangible asset has an indefinite life.

The IASB decided to converge with the FASB in the Exposure Draft by:

(a) eliminating the requirement that an intangible asset be reliably measurable to be recognised separately from goodwill; and

(b) precluding the recognition of an assembled workforce acquired in a business combination as an intangible asset separately from goodwill. (See paragraphs 40 and BC100-BC102.)

Question 16—Do you believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognised separately from goodwill? If not, why? Do you have any examples of an intangible asset that arises from legal or contractual rights and has both of the following characteristics:

(a) the intangible asset cannot be sold, transferred, licensed, rented, or exchanged individually or in combination with a related contract, asset, or liability; and

(b) cash flows that the intangible asset generates are inextricably linked with the cash flows that the business generates as a whole?

We agree with EFRAG draft comments that identifiable intangible assets cannot always be measured with sufficient reliability to be recognised separately from goodwill, as active markets do not exist in many cases. We believe that reliable measurement should continue to be one of the criteria to recognise an intangible asset separately from goodwill. We do not accept that the only reason for this amendment is for convergence. We believe the use of valuation techniques for measuring intangible assets brings practical difficulties to obtain reliable measure, but it is a way to determine a value when no active markets exist for intangible asset.

Although we agree that identifiable intangible asset cannot always be measure reliability to be recognised, we support the requirement in IFRS 3 to identify as much intangible assets as possible in a business combination to reduce the amount of goodwill recognised.

Question 17—Do you agree that any changes in an acquirer's deferred tax benefits that become recognisable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination? If not, why?

We agree with EFRAG and with IASB.

Question 18—Do you believe it is appropriate for the IASB and the FASB to retain those disclosure differences? If not, which of the differences should be eliminated, if any, and how should this be achieved?

We prefer to retain disclosure differences between IASB and FASB standards than to achieve full convergence. We fear that the elimination of differences result in more disclosure in IASB standards.

Question 19—Style of the Exposure Draft

Question 19—Do you find the bold type-plain type style of the Exposure Draft helpful? If not, why? Are there any paragraphs you believe should be in bold type, but are in plain type, or vice versa?

We agree with the bold type style in the Exposure Draft.

ED OF PROPOSED AMENDMENTS TO
IAS 27 *Consolidated and Separate Financial Statements*

Question 1

Draft paragraph 30A proposes that changes in the parent's ownership interest in a subsidiary after control is obtained that do not result in a loss of control should be accounted for as transactions with equity holders in their capacity as equity holders. As a result, no gain or loss on such changes would be recognised in profit or loss (see paragraph BC4 of the Basis for Conclusions).
Do you agree? If not, why not and what alternative would you propose?

We support EFRAG draft response and disagree with the proposed treatment. We prefer the parent entity approach, and consequently we would like the classification of non-controlling interest to be separate from equity as it represents third party interest in certain subsidiaries. We refer you to our comments in paragraph 6 of the covering letter.

We recognise however that the Exposure Draft propose helpful guidance on how to account for changes in ownership interest without losing control.

Question 2

Paragraph 30D proposes that on loss of control of a subsidiary any non-controlling equity investment remaining in the former subsidiary should be remeasured to its fair value in the consolidated financial statements at the date control is lost. Paragraph 30C proposes that the gain or loss on such remeasurement be included in the determination of the gain or loss arising on loss of control (see paragraph BC7 of the Basis for Conclusions).

Do you agree that the remaining non-controlling equity investment should be remeasured to fair value in these circumstances? If not, why not and what alternative would you propose?

Do you agree with the proposal to include any gain or loss resulting from such remeasurement in the calculation of the gain or loss arising on loss of control? If not, why not, and what alternative would you propose?

We agree with EFRAG and disagree with the proposal, which will contradict with accounting treatment of associate under IAS 28 and jointly controlled entity under IAS 31. The remaining non-controlling investment in a subsidiary is not part of the transaction and should not be revalued.

Question 3

As explained in Question 1, the Exposure Draft proposes that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control should be treated as transactions with equity holders in their capacity as equity holders. Therefore, no gain or loss would be recognised in profit or loss.

However, a decrease in the parent's ownership interest resulting in the loss of control of a subsidiary would result in any gain or loss being recognised in profit or loss for the period. The Board is aware that differences in accounting that depend on whether a change in control occurs could create opportunities for entities to structure transactions to achieve a particular accounting result.
To reduce this risk, the Exposure Draft proposes that if one or more of the indicators in paragraph 30F are present, it is presumed that two or more disposal transactions or arrangements that result in a loss of control should be accounted for as a single transaction or arrangement. This presumption can be overcome if the entity can demonstrate clearly that such accounting would be inappropriate (see paragraphs BC9-BC13 of the Basis for Conclusions).

Do you agree that it is appropriate to presume that multiple arrangements that result in a loss of control should be accounted for as a single arrangement when the indicators in paragraph 30F are present? Are the proposed factors suitable indicators? If not, what alternative indicators would you propose?

We agree with EFRAG and with IASB.

Question 4

Paragraph 35 proposes that losses applicable to the non-controlling interest in a subsidiary should be allocated to the non-controlling interest even if such losses exceed the non-controlling interest in the subsidiary's equity. Non-controlling interests are part of the equity of the group and, therefore, participate proportionally in the risks and rewards of investment in the subsidiary.

Do you agree with the proposed loss allocation? Do you agree that any guarantees or other support arrangements from the controlling and non-controlling interests should be accounted for separately? If not, why not, and what alternative treatment would you propose?

We support EFRAG draft response which disagree with the proposed loss allocation as we also favour the parent entity perspective. We agree with the dissenting Board members in AV1-AV3. Non-controlling interest represent a different type of equity. We consider the current loss allocation method of IAS 27 more appropriate.

Question 5

Do you agree that proposed paragraphs 30A, 30C and 30D should apply on a prospective basis in the cases set out in paragraph 43B? Do you believe that retrospective application is inappropriate for any other proposals addressed by the Exposure Draft? If so, what other proposals do you believe should be applied prospectively and why?

We support EFRAG draft response. We agree that the proposed paragraphs should be applied on a prospective basis.

ED OF PROPOSED AMENDMENTS TO
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets and*

Question 1 – Scope of IAS 37 and terminology

(a) Do you agree that IAS 37 should be applied in accounting for all non-financial liabilities that are not within the scope of other Standards? If not, for which type of liabilities do you regard its requirements as inappropriate and why?
(b) Do you agree with not using 'provision' as a defined term? If not, why not?

We agree with EFRAG's support for the extended scope of IAS 37. A default standard for all non-financial liabilities is an improvement for IFRSs. However, we would suggest to IASB to elaborate on the impact of the extension of the scope of IAS 37 and to provide examples of liabilities that are now captured by the scope of the proposed IAS 37 which were not under the scope of current IAS 37.
We also agree with the term 'non financial liability' instead of provision.

Question 2 – Contingent liabilities

(a) Do you agree with eliminating the term 'contingent liability'? If not, why not?
(b) Do you agree that when the amount that will be required to settle a liability (unconditional obligation) is contingent on the occurrence or non-occurrence of one or more uncertain future events, the liability should be recognised independently of the probability that the uncertain future event(s) will occur (or fail to occur)? If not, why not?

(a) Instead of eliminating the term 'contingent liability', we propose to clarify the definition to differentiate between present obligation and potential conditional obligation that are not link to unconditional obligations and still require to be defined and to be disclosed in the notes. Such information about potential risks is relevant to users even if they do not meet the definition of liability.
(b) We support EFRAG's concerns about the serious practical implications of the concept of unconditional and conditional rights. We agree with the alternative view of the dissenting Board member in AV4 and AV5. Our main concern is how to determine when is the obligating event. The conditions for recognition are not clear and we find the examples in the Exposure draft of limited help for situation where the obligation event is not so obvious. The boundaries for judging of the certainty of the obligation are difficult to draw in certain cases and it may lead to different accounting for the same situation. We recommend the Board to develop clear principles.

Question 3 – Contingent assets

(a) Do you agree with eliminating the term 'contingent asset'? If not, why not?

(b) Do you agree that items previously described as contingent assets that satisfy the definition of an asset should be within the scope of IAS 38? If not, why not?

(a) We agree with eliminating the term contingent asset.
(b) We agree that contingent assets that satisfy the definition of an asset should be within the scope of IAS 38. However, we noted the difference in the recognition criteria under IAS 38. Paragraph 33 of IAS 37 stated that the 'contingent' asset is recognised when the realisation of income is virtually certain. Under IAS 38, the intangible asset is recognised when expected future benefits are probable. This difference should be explored more in depth. We also would like to stress that information on assets that do not meet the definition of intangible assets under IAS 38 would not be disclosed anymore as previously under IAS 37.89. We consider that such disclosure is relevant to users. We suggest IASB to elaborate on the consequences of the move from IAS 37 to IAS 38.

Question 4 – Constructive obligations

(a) Do you agree with the proposed amendment to the definition of a constructive obligation? If not, why not? How would you define one and why?

(b) Is the additional guidance for determining whether an entity has incurred a constructive obligation appropriate and helpful? If not, why not? Is it sufficient? If not, what other guidance should be provided?

We agree with the proposed change in the definition of a constructive obligation and we support EFRAG's suggestion to provide additional explanation of the proposed concept and clarification as to whether the objective has been achieved.

Question 5 – Probability recognition criterion

Do you agree with the analysis of the probability recognition criterion and, therefore, with the reasons for omitting it from the Standard? If not, how would you apply the probability recognition criterion to examples such as product warranties, written options and other unconditional obligations that incorporate conditional obligations?

We fully support EFRAG' draft response and we disagree with the proposed amendment. The current approach of IAS 37 is better from a practical point of view and the change of the probability concept from recognition to measurement is not in line with the Framework. The Basis for conclusions introduces the new concept of stand-ready obligation to justify the change in criteria. However, this new concept was never discussed or exposed. We refer you to our comments in paragraph 7 of the covering letter.

Question 6 – Measurement

Do you agree with the proposed amendments to the measurement requirements? If not, why not? What measurement would you propose and why?

We agree with EFRAG's draft comments about the major practical difficulties with the measurement requirements. Even though we do not consider the amendments to measurement requirements significant, the change in the recognition criteria puts more pressure on the measurement. The practical implications of the proposals should be studied. We fear it will be even more difficult to measure a liability than currently.

Question 7 – Reimbursements

Do you agree with the proposed amendment to the recognition requirements for reimbursements? If not, why not? What recognition requirements would you propose and why?

In principle, we agree with the proposed amendments but we are concerned that reimbursement right will be recognised as an asset only on the basis that it can be measured reliably under the proposals. Under current IAS 37, it could only be recognised if it is virtually certain that the right is received. Therefore we suppose that it will be easier to recognise reimbursement rights.

Question 8 – Onerous contracts

(a) Do you agree with the proposed amendment that a liability for a contract that becomes onerous as a result of the entity's own actions should be recognised only when the entity has taken that action? If not, when should it be recognised and why?

(b) Do you agree with the additional guidance for clarifying the measurement of a liability for an onerous operating lease? If not, why not? How would you measure the liability?

(c) If you do not agree, would you be prepared to accept the amendments to achieve convergence?

We agree with EFRAG's draft comments that the implication of the change in wording is not clear from the Exposure Draft and should be clarified.

We do not agree that, under the proposed paragraph 58, the liability is reduced by the estimated sublease rental costs even if the entity does not have the intention to enter into a sublease. The paragraph should rather say, "if the entity intends to enter into a sublease". In this way, the liability is recognised at the optimal amount and not at the expected future cash flow.

Question 9 – Restructuring provisions

(a) Do you agree that a liability for each cost associated with a restructuring should be recognised when the entity has a liability for that cost, in contrast to the current approach of recognising at a specified point a single liability for all of the costs associated with the restructuring? If not, why not?

(b) Is the guidance for applying the Standard's principles to costs associated with a restructuring appropriate? If not, why not? Is it sufficient? If not, what other guidance should be added?

We agree with IASB. We welcome the alignment of the recognition of restructuring provisions with the recognition of others liabilities under IAS 37.

ED OF PROPOSED AMENDMENTS TO
IAS 19 *Employee Benefits*

Question 1 – Definition of termination benefits

Do you agree with this amendment? If not, how would you characterise such benefits, and why?

We support EFRAG's draft comments that the timing is only one input factor and the substance of the arrangement should be considered rather than the form. We also suggest that the Board provide additional guidance of what it meant by "offered for a short period" since it will influence the classification of termination benefits, specially when a plan is issued just before the end of the financial period.

Question 2 – Recognition of termination benefits

Is recognition of a liability for voluntary and involuntary termination benefits at these points appropriate? If not, when should they be recognised and why?

We disagree with the proposal that voluntary termination benefits are recognised when the employees accept the entity's offer as we see such proposal in contradiction with the basic principle of IAS 37 to recognise a liability as soon as there is an unconditional obligation. The entity should recognise voluntary termination benefits at the moment it issues the termination benefits plan, i.e. when it has committed itself to offer such benefits and not when the employees accept the offer. We prefer the current requirement under IAS 19.

Question 3 – Recognition of involuntary termination benefits that relate to future service

Do you agree with the criteria for determining whether involuntary termination benefits are provided in exchange for future services? If not, why not and what criteria would you propose? In these cases, is recognition of a liability over the future service period appropriate? If not, when should it be recognised and why?

We agree with IASB.