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March 27, 2003

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This letter is the response by The Chamber of Commerce and Industry of Southern Sweden to the invitation to comment on the: Exposure Draft ED 3 Business Combinations.

The response has been prepared by the Accounting Committee. Its comments are enclosed.

Yours sincerely,

Stephan Müchler
President and CEO

Reidar Peters
Chairman of the Accounting Committee

The members of the Accounting Committee:

Reidar Peters, Chairman, Chartered Accountant, Ret.
Olof Arwidi, Professor, School of Economics and Management, Lund University
Göran Axeheim, Chief Financial Officer, Cardo AB
Bertil Gandemo, Professor Emeritus, School of Economics and Management, Lund University
Bo Jacobsson, Chief Financial Officer, Trelleborg AB
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Willard Möller, Chartered Accountant, SET Revisionsbyrå AB
Jörgen Nilsson, Financial Manager, Chamber of Commerce and Industry of Southern Sweden
Sven-Arne Nilsson, Secretary, D.Econ. (Accounting), Deloitte & Touche and Lund University

The Accounting Committee of the Chamber
of Commerce and Industry of Southern Sweden 2003-03-27

Business Combinations

In response to the invitation to comment on the Exposure Draft ED 3 Business Combinations (hereinafter: ED 3), the Accounting Committee of the Chamber of Commerce and Industry of Southern Sweden has chosen to answer only the questions 2, 6 and 8.

Response to question 2

> **Question 2 – Method of accounting for business combinations**
>
> The Exposure Draft proposes to eliminate the use of the pooling of interests method and require all business combinations within its scope to be accounted for by applying the purchase method […].
>
> Is this appropriate? If not, why not? If you believe the pooling of interests method should be applied to a particular class of transactions, what criteria should be used to distinguish those transactions from other business combinations, and why?

We agree with the conclusion (basis for conclusions on the ED 3, BC20) that most business combinations result in one entity obtaining control of another entity, and that an acquirer could therefore be identified for most combinations. However, this is not true for all business combinations. We think that, especially in a principles-based approach to standard-setting, the purchase method should be used only for true acquisitions.

For business combinations where there is no acquirer, a possible, alternative method is the *fresh start method*. We notice that this method is going to be studied and considered in Phase II of the IASB's business combination project. Our opinion is that the pooling of interests method should be required for combinations classified as unitings of interests at least until the fresh start method is studied in phase II.

Regarding what criteria should be used to distinguish unitings of interests from acquisitions, we suggest that the present criteria in IAS 22 are used.

Response to question 6

Question 6 – Contingent liabilities

The Exposure Draft proposes that an acquirer should recognise separately the acquiree's contingent liabilities at the acquisition date as part of allocating the cost of a business combination, provided their fair values can be measured reliably [...].

Is this appropriate? If not, why not?

We do not find this proposal appropriate. We notice that the IASB (BC82) agreed that the proposal highlights an inconsistency with the recognition criteria applying to liabilities and contingent liabilities in IAS 37 and the *Framework* , and that the role of probability in the *Framework* should be considered more generally as part of a later Concepts project.

Like the Deutsche Standardisierungsrat[1] (hereinafter: DSR), we reject recognition of the acquiree's contingent liabilities at the acquisition date as part of allocating the cost of a business combination, since this proposal is contrary to IAS 37 and the *Framework*. Our opinion is that the acquiree's contingent liabilities at the acquisition date should not be recognised as part of allocating the cost of a business combination at least until the role of probability in the *Framework* has been considered more generally and the *Framework* possibly has been revised.

Response to question 8

Question 8 – Goodwill

The Exposure Draft proposes that goodwill acquired in a business combination should be recognised as an asset and should not be amortised. Instead, it should be accounted for after initial recognition at cost less any accumulated impairment losses [...].

Do you agree that goodwill acquired in a business combination should be recognised as an asset? If not, how should it be accounted for initially, and why? Should goodwill be accounted for after initial recognition at cost less any accumulated impairment losses? If not, how should it be accounted for after initial recognition and why?

We agree that goodwill acquired in a business combination should be recognised as an asset, even if we are not convinced that such goodwill meets the definition of an asset in the conceptual framework of the IASB.

Regarding how goodwill should be accounted for after initial recognition, we suggest that entities should be permitted a choice between amortisation and non-amortisation, i.e. a choice between the approaches (a) and (b) in BC104.

Like the Accounting Standards Board[2] (hereinafter: ASB) in the UK, we believe that neither an impairment test annually nor amortisation is likely to exactly reflect the consumption of acquired goodwill. The ASB argues that cost and benefit considerations should be taken into account in judging whether amortisation should be permitted as an alternative to the requirement for an annual impairment test. Together with the ASB, our opinion is that entities should be permitted to amortise, given the simplicity and ease of setting up an amortisation schedule.

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1 DSR. (2003). *Projekt "Business Combinations (Phase I)" des IASB Vorläufige Stellungnahme des Deutschen Standardisierungsrats (DSR) Stand: 4. Februar 2003*.

2 ASB. (2002). *IASB Proposals on Business Combinations, Impairment and Intangible Assets* (Consultation paper). London: Accounting Standards Board.

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