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28 March 2003

Annette Kimmit
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Madam

Exposure Draft on Business Combinations

We are pleased to provide you with our comments on the Exposure Draft on the treatment of Business Combinations. The proposals are set out in Exposure Draft 3 issued by the International Accounting Standards Board in December 2002.

In principal, we welcome the proposals contained in ED3. In particular, we welcome the proposal to eliminate the use of the pooling of interest method and agree that all business combinations within the ED's scope should be accounted for by applying the purchase method.

We support the IASB's proposal that, in addition to the acquirer measuring the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at date of acquisition, the minority interest in the acquiree should be stated at the minority's proportion of the net fair value of those items.

We agree in principle with the IASB's proposals in relation to reverse acquisitions and consider the illustrative example in relation to these particularly helpful.

We agree with the IASB's proposals that goodwill acquired in a business combination should be recognised as an asset. However, we do not agree with the ED's proposals that goodwill should not be amortised and that annual impairment reviews be performed instead.

We suggest that goodwill is not dissimilar to other intangible assets therefore the IASB's proposals to account for them differently is, in our opinion, incorrect. The ED states in paragraph I4 "that permitting similar transactions to be accounted for in dissimilar ways impairs the usefulness of the information provided to users of financial reports". We would suggest that the acquisition of intangible assets and purchased goodwill arising on business combinations are similar transactions therefore to account for them in dissimilar ways would impair the usefulness of the information provided to users.

Our alternative accounting suggestion is that goodwill acquired in a business combination should be capitalised and amortised over its useful life in accordance with the treatment of other intangible assets. In addition to the annual amortisation we would suggest that impairment reviews be undertaken when specific indicators of impairment arise similar to those suggested in the UK ASB's Financial Reporting Statement 11 ' Impairment of fixed assets and goodwill' paragraph 10.

Please find enclosed with this letter answers to the Invitation to Comment questions in the ED itself.

Please do not hesitate to contact me if you require clarification on any of our comments.

Yours faithfully,

Nicola McNaughton
Group Financial Accountant
Stagecoach Group plc

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Responses to the Invitation to Comment questions raised in ED 3

Question 1

(a) We agree with the IASB's proposals to exclude from the scope of this specific IFRS business combinations in which separate entities or operations of entities are brought together to form a joint venture, and business combinations involving entities under common control.
(b) We would agree that the definition and additional guidance on business combinations involving entities under common control is helpful. However, we suggest that for clarification purposes, the IASB includes examples of the types of transactions that would be included within this scope exclusion.

Question 2

We agree with the IASB's proposals to eliminate the use of the pooling of interest method and agree that all business combinations within the ED's scope should be accounted for by applying the purchase method.

Question 3

(a) We agree with the IASB's proposals to modify the circumstances in which a business combination is accounted for as a reverse acquisition. We would also agree that in determining the acquirer focus should be put on the entity that has the power to govern the financial and operating policies of the other entity rather than which party owns the majority of the combined equity.
(b) We agree that the proposed additional guidance on the accounting for reverse acquisitions is appropriate. We think that the practical example included within the Draft Illustrative Examples is particularly helpful in outlining the accounting implications of the reverse acquisition proposals contained within the ED. However one point that we would suggest needs clarification is how the issued equity in the example should be split between share capital and share premium.

Question 4

We agree with the IASB's proposal that when a new entity is formed to issue equity instruments to effect a business combination, one of the combining entities that existed before the combination should be adjudged the acquirer on the evidence available.

Question 5

We agree with the IASB's proposal that a restructuring provision should only be recognised as part of allocating the cost of a business combination when the acquiree has an existing liability at the acquisition date.

Question 6

We agree with the IASB's proposals 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, providing a fair value can be measured reliably.

Question 7

We agree with the IASB's proposals that require the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost to be measured initially by the acquirer at their fair values at the acquisition date. We also agree with the IASB's proposal that the minority interest in the acquiree should be stated at the minority's proportion of the net fair values of those items.

Question 8

We agree with the IASB's proposals that goodwill acquired in a business combination should be recognised as an asset. However, we do not agree with the ED's proposals that goodwill should not be amortised and that annual impairment reviews be performed instead.

We suggest that goodwill is not dissimilar to other intangible assets therefore the IASB's proposals to account for them differently is, in our opinion, incorrect. The ED states in paragraph I4 "that permitting similar transactions to be accounted for in dissimilar ways impairs the usefulness of the information provided to users of financial reports". We would suggest that the acquisition of intangible assets and purchased goodwill arising on business combinations are similar transactions therefore to account for them in dissimilar ways would impair the usefulness of the information provided to users.

Our alternative accounting suggestion is that goodwill acquired in a business combination should be capitalised and amortised over its useful life in accordance with the treatment of other intangible assets. In addition to the annual amortisation we would suggest that impairment reviews be undertaken when specific indicators of impairment arise similar to those suggested in the UK ASB's Financial Reporting Statement 11 ' Impairment of fixed assets and goodwill' paragraph 10.

Question 9

We agree with the IASB's proposals that where the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost of the combination exceeds that cost, the acquirer should:

(a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
(b) recognise immediately in profit or loss any excess remaining after that reassessment.

Question 10

(a) We disagree with the IASB's proposal that any adjustments to fair values after the initial accounting for the business combination should be completed within 12 months of the acquisition date, apart from the 3 exceptions noted in BC 129- BC 132.

    Our reasoning for this is that it unfairly disadvantages companies that report half yearly or quarterly in comparison to those that report annually. For example if you complete an acquisition in March 03 and your year end is 31 December 03, then if you report annually, there is nothing within the IASB's proposals to stop you in practise from adjusting those fair values attributed in that acquisition right up until 31 December 04 as you have will not have had to report any results until this point. However if you report quarterly you only have the 12 months until the 31 March 2004 to adjust the fair values, as this will be your next relevant reporting date.

We suggest, as an alternative, that the cut off point for adjusting the fair values be the date of approval of the acquirer's second annual financial statements after the acquisition, as this does not unfairly disadvantage companies that report half yearly or quarterly.

(b) We agree that adjustments to the initial accounting for a business combination, after the accounting above is complete, should be recognised only to correct an error.