CL 35

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

In Prague, 4th April 2003
c.17/2003

Re: Comment Letter on IASB ED of Proposed Amendments to IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*

The Chamber of Auditors of the Czech Republic welcomes the opportunity to submit its comments to the International Accounting Standards Board regarding the Exposure Draft of Proposed Amendments to IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*, published by the International Accounting Standards Board for comments in December 2002.

We have reviewed the Exposure Draft and generally we support the proposals included in the above document. In our comment letter we deal only with the specific issue raised in the Exposure Draft concerning which we have the different view.

Question 2 – Intangible assets with indefinite useful lives

We agree with the conclusion described in paragraph C10 of the Basis for Conclusions but do not understand why the different treatment should be applied for intangible assets with indefinite useful lives and for goodwill (that has also indefinite useful live).

We do support the prohibition of any reversals of impairment losses recognised for goodwill because it is not possible to make any clear distinction between originally acquired goodwill and goodwill internally generated during periods following the date of business combination. In our opinion the same principle should be applied also to the intangible assets with indefinite useful lives.

We hope you´ll find our comment helpful and we would be pleased to discuss any aspect of this letter you may wish.

Yours sincerely,

ing. Ladislav Langr
Vice-president of the Chamber of Auditors of the Czech Republic

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Re: Comment Letter on IASB ED 3 Business Combinations

The Chamber of Auditors of the Czech Republic welcomes the opportunity to submit its comments to the International Accounting Standards Board regarding the Exposure Draft ED 3 Business Combinations, published by the International Accounting Standards Board for comments in December 2002.

Question 1 – Scope

Our understanding of the Exposure Draft is based on the assumption that in phase I of the Business Combinations project the IASB intends to set a guidance only for the transactions where the acquirer can be easily identified. Therefore the scope exclusions including the related definitions and additional guidance appear to be logical and appropriate provided IASB will address all business combinations transactions outside the scope of this draft IFRS in phase II of its Business Combinations project. Nevertheless, we do not consider it useful to implement the new IFRS based on this ED without having the phase II complete.

Question 2 – Method of accounting for business combinations

We agree with the proposal 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.

Question 3 – Reverse acquisitions

We generally support the requirement to recognise the acquirer based on the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities. However the description of reverse acquisition included in the third sentence of paragraph 21 should be understood only in a narrow way for the transactions between the issuing entity and the entity whose equity interests have been acquired. In our opinion the wording of the paragraph 12 of IAS 22 better reflects wider circumstances of the related party relationships. Therefore we suggest to change the wording of the third sentence in paragraph 21 of the draft IFRS as follows:

"In business combinations, commonly referred to as reverse acquisitions, where the power to govern the financial and operating policies of the other entity (or entities) so as to obtain benefits from its (or their) activities passes to the owners of the entity whose equity interests have been acquired, the issuing entity is the acquiree and the latter entity is deemed to be the acquirer."

As a result the change of the third sentence wording also any change of the second sentence should be found appropriate.

Question 4 – Identifying the acquirer when a new entity is formed to effect a business combination

We agree with the proposal.

Question 5 – Provisions for terminating or reducing the activities of the acquiree

We agree with the proposal.

Question 6 – Contingent liabilities

We agree with the proposal. If the acquiree´s contingent liability is included in the costs of the business combination (so such liability is assumed by acquirer and in fact paid by acquiree by means of decreased costs of the business combination), is properly evidenced and its fair value can be measured reliably it is appropriate to recognise it in acquirer´s liabilities. This treatment better corresponds with the allocation of the costs of a business combination according to the substance of the acquired assets and liabilities, and reduces indeterminate amounts recognised as goodwill or accounted for in accordance with paragraph 55.

Question 7 – Measuring the identifiable assets acquired and liabilities and contingent liabilities assumed

We agree with the proposal.

Question 8 – Goodwill

We agree with the proposal.

Question 9 – Excess over the cost of a business combination of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities

We agree with the proposal. Having regard to the treatment of the contingent liabilities referred to in our answer to Q6 we believe that an excess remaining after the reassessment should exist only due to any expected future losses that do not meet the recognition criteria for liabilities and should be recognised immediately as a gain.

<u>Question 10 – Completing the initial accounting for a business combination and subsequent adjustments to that accounting</u>

We agree with the proposal.

We hope you´ll find our comments helpful and we would be pleased to discuss any aspect of this letter you may wish.

Yours sincerely,

ing. Ladislav Langr
Vice-president of the Chamber of Auditors of the Czech Republic