CL 37

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Mayne Group Limited
15/575 Bourke Street
Melbourne 3000
AUSTRALIA

Re: ED 3 Business Combinations

Question 1 Scope

(a) The scope exclusions are appropriate.
(b) The definition and guidance provided on business combinations involving entities under common control is not all that helpful in making the case for exclusion. A practical example of the circumstances under which this exclusion would apply would reinforce the definition.

Question 2 Method of accounting for business combinations

The requirement to account for all qualifying business combinations by applying the purchase method is appropriate. The retention of the pooling of interests method for any types of transactions would add an unnecessary layer of complexity and perpetuate diverse practices.

Question 3 Reverse acquisitions

(a) The description of the circumstances for account for a business combination as a reverse acquisition are appropriate.
(b) The additional guidance is adequate.

Question 4 Identifying the acquirer when a new entity is formed

The nomination of the new entity as the acquirer ensures a consistent approach and simplifies the process. The benefits from nominating one of the existing entities do not seem to outweigh the straightforwardness of the new entity being the acquirer.

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

There are two difficulties with restricting the recognition of provisions for restructuring the activities of the acquiree to those that existed in the acquiree at acquisition date. First, this could be inequitable in the case of a "friendly" acquisition where the acquirer and the acquiree could agree that the acquiree recognise provisions prior to the formal transaction being consumated. The proposed approach would

encourage such practices that would not be available in "hostile" acquisition situations. This does not promote a level playing field.
Second, the acquirer more often than not enters into acquisitions on the basis of synergies to be achieved that inevitably involve restructuring of the acquiree. A common example is rationalisation of head office facilities.
The proposed approach is at odds with common commercial practice in this area.

Question 6 Contingent liabilities

The proposed approach introduces a stricter standard of recognition for contingent liabilities than applies on an ongoing basis. An alternative would be to require the cost of acquisition to be adjusted subsequently for those contingent liabilities at acquisition which meet normal recognition criteria subsequent to acquisition.

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

The proposed approach is appropriate because it provides certainty and consistency. Recognition of minority interests at the same fair values provides useful information to the majority and minority owners.

Question 8 Goodwill

The proposed treatment of goodwill as an asset that is not amortised and the subsequent recognition at cost less accumulated impairment losses is most appropriate.

Question 9 Treatment of the excess of the value of the interest in net assets acquired over cost of acquisition

The proposed approach is appropriate.

Question 10 Completing the initial accounting for a business combination and subsequent adjustments to that accounting

(a) In the light of the exceptions in Paragraphs 32, 33 and 64, the proposed 12 month period should be adequate, however designation of the period as the end of the annual financial period following the annual financial period in which the acquisition was made would give more time which in our experience is needed with large and complex acquisitions.
(b) Should the proposed treatment of contingent liabilities change so that the cost of acquisition was adjusted based on subsequent recognition of contingent liabilities existing at acquisition date, a similar exception would be required for recognition of contingent liabilities.

Yours faithfully,

John Craig
Manager Statutory Reporting
Mayne Group Finance

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Limited
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Street
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Re: Amendments to IAS 36

Question 1 Frequency of impairment tests

The frequencies proposed are appropriate.

Question 2 Intangible assets with indefinite useful lives

The proposals for measurement and treatment of impairment losses for these assets are appropriate.

Question 3 Measuring value in use

(c) The elements proposed in Paragraph 25A are adequate and the flexibility to adjust rates or cash flows is appropriate.
(d) It is appropriate to have regard to past actual cash flows and the past ability of management to forecast cash flows
(e) The guidance is adequate

Question 4 Allocating goodwill to cash generating units

(a) The level for allocation of goodwill to cash generating units is appropriate.
(b) Goodwill should be included in the carrying amount of an operation when determining the gain or loss on disposal. It is appropriate to allocate such goodwill disposed of on the basis of the relative values of the operation of the portions of the unit disposed of and retained.
(c) A similar relative values approach is appropriate for reallocating goodwill in the event of reorganisation of cash generating units to which goodwill has been allocated.

Question 5 Determining whether goodwill is impaired

(a) The definition of recoverable amount is appropriate.
(b) The use of a screening mechanism for identifying potential goodwill impairments is most appropriate.
(c) The proposal for measurement of impairment losses of goodwill is appropriate.

Question 6 Reversal of impairment losses for goodwill

The prohibition of reversal of impairment losses in relation to goodwill is sensible in that it could be argued that a future “recovery “ of impaired goodwill was internally generated.

Question 7 Estimates used to measure recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives

(a) The disclosures required by Paragraph 134 items (e) and (f) are onerous and in certain situations may be commercially sensitive. There is also a question of equity in that an entity that has grown by acquisition is required to disclose this information, whereas an entity that has grown generically and has no goodwill has no such disclosure. A more general discussion about the methodologies used by the entity should be required, however this need not be segment specific unless there are significant differences due to industry or regional factors.
(b) Such disclosure under Paragraph 137 is appropriate with the exception of items (e) and (f) of Paragraph 134 for the reasons noted above.

Yours faithfully,

John Craig
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Re: Amendments to IAS 38

Question 1 Identifiability

The criterion for determining whether an intangible asset is identifiable are adequate.

Question 2 Criteria for recognising intangible assets acquired in a business combination separately from goodwill

Sufficient information can reasonably be expected to exist to measure reliably the fair value of an intangible asset acquired in a business combination. Circumstances encountered where the fair value could not be measured reliably at acquisition have included the acquisition of rights licenced to the acquiree entity from third parties whereby the acquisition has triggered exit clauses on the part of the licensor which have rendered the continuation of the rights uncertain.

Question 3 Indefinite useful life

The circumstances under which an intangible asset may have an indefinite useful life are most appropriate.

Question 4 Useful life of intangible asset arising from contractual or other legal rights

The proposals to determine useful life in these circumstances are sensible.

Question 5 Non-amortisation of intangible assets with indefinite useful lives

This approach is consistent with the treatment of goodwill and is most appropriate.

Yours faithfully,

John Craig
Manager Statutory Reporting
Mayne Group Finance